
IFRS® Interpretations Committee meeting

Date	November 2024
Project	Assessing Indicators of Hyperinflationary Economies (IAS 29)
Topic	Initial consideration
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the application of IAS 29 *Financial Reporting in Hyperinflationary Economies* to identify when an economy becomes hyperinflationary.
2. The objective of this paper is:
 - (a) to provide the Committee with a summary of the matter;
 - (b) to present our research and analysis; and
 - (c) to ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.
3. Agenda Paper 2B of this meeting asks for the Committee's input about the application of IAS 29 and the usefulness of the information resulting from the application of IAS 29. That agenda paper relates to, but is not part of, the question raised to the Committee in the submission.

Structure

4. This paper includes:
 - (a) [background and summary of submission](#) (paragraphs 6–9);
 - (b) [findings from information request](#) (paragraphs 10–26);
 - (c) [staff analysis](#) (paragraphs 27–39); and
 - (d) [staff recommendation](#) (paragraphs 40–41).
5. There are two appendices to this paper:
 - (a) [Appendix A—suggested wording for the tentative agenda decision](#); and
 - (b) [Appendix B—Submission](#).

Background and summary of submission

6. Paragraphs 3–4 of IAS 29 state:
 - 3 This Standard does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgement when restatement of financial statements in accordance with this Standard becomes necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:
 - (a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
 - (b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;

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- (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
 - (d) interest rates, wages and prices are linked to a price index; and
 - (e) the cumulative inflation rate over three years is approaching, or exceeds, 100%.
- 4 It is preferable that all entities that report in the currency of the same hyperinflationary economy apply this Standard from the same date. Nevertheless, this Standard applies to the financial statements of any entity from the beginning of the reporting period in which it identifies the existence of hyperinflation in the country in whose currency it reports.
7. The submitter explains that some (but not all) stakeholders place ‘a predominant focus’ on the indicator in paragraph 3(e) of IAS 29¹ when applying paragraph 3 of IAS 29 while some other stakeholders consider all indicators. The submitter says this apparent diversity in practice can lead to stakeholders reaching different conclusions about when an economy becomes hyperinflationary in accordance with IAS 29. This can, in turn, create practical challenges for multi-national entities operating across multiple jurisdictions. The submission—reproduced in Appendix B to this paper—includes further information about the different views.
8. The submitter asks:
- (a) *question 1*—whether all indicators in paragraph 3 of IAS 29 should be considered in assessing when an economy becomes hyperinflationary, including continuing to consider all indicators even when one indicator in paragraph 3 has been met;

¹ We refer to the indicator in paragraph 3(e) of IAS 29 as the ‘quantitative indicator’ and the indicators in paragraph 3(a)–3(d) collectively as the ‘qualitative indicators’ throughout the rest of the paper.

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- (b) *question 2*—whether IAS 29 requires the consideration of indicators other than those listed in paragraph 3 of IAS 29 when relevant; and
 - (c) *question 3*—whether IAS 29 requires both a subsidiary (in its financial statements) and a parent (in its consolidated financial statements) to consistently conclude on when an economy becomes hyperinflationary.²
9. Appendix B to this paper reproduces the submission.

Findings from information request

10. We sent an information request to members of the International Forum of Accounting Standard-Setters, securities regulators and large accounting firms. We also made the submission available on our website.
11. The request asked:
- (a) if other indicators in paragraph 3 of IAS 29 are considered even if one indicator is met. For example, if the cumulative inflation rate for an economy over three years exceeds 100% (including if the rate only marginally exceeds 100%), are other indicators of hyperinflation also considered to conclude when an economy becomes hyperinflationary.
 - (b) if indicators in addition to those listed in paragraph 3 of IAS 29 are considered.
 - (c) if different conclusions are observed at different levels within a group about when an economy becomes hyperinflationary. For example:
 - (i) a subsidiary entity preparing financial statements applying IFRS Accounting Standards concludes that the economy of its functional currency was not hyperinflationary; and

² The submission asks whether paragraphs 4 and 35 of IAS 29 require both a subsidiary and the group which consolidates the subsidiary to apply IAS 29 consistently, *including* commencing application of hyperinflation at the same date. We understand from the submitter that their question is about whether IAS 29 requires both a subsidiary (in its financial statements) and a parent (in its consolidated financial statements) to consistently conclude on *when* an economy becomes hyperinflationary.

- (ii) a parent entity of that subsidiary when preparing its financial statements applying IFRS Accounting Standards concludes that the economy of the subsidiary's functional currency was hyperinflationary.
- 12. We received 13 responses—five from national standard-setters, seven from accounting firms and one from an organisation representing a group of securities regulators. The national standard-setters are from Asia-Oceania, Europe, and South America. The responses represent informal opinions and do not necessarily reflect the official views of those respondents or their organisations.
- 13. Our summary below focuses on respondents' experience in relation to the questions asked. A few respondents shared their views about other aspects of IAS 29. We did not include those comments in this paper.

Considering other indicators in paragraph 3 of IAS 29 even when one indicator is met

- 14. All respondents (including national standard-setters and large accounting firms) say in their experience, multiple indicators are considered in assessing when an economy becomes hyperinflationary. The respondents do not have evidence of economies being concluded to be hyperinflationary based on considering only one of the indicators listed in paragraph 3 of IAS 29.
- 15. Nonetheless, almost all respondents say *greater weight* might be given to one or more indicators in particular situations. All these respondents observed (or applied themselves) a greater weight being given to the quantitative indicator in particular situations. One respondent (the group of securities regulators) says the quantitative indicator appears to be considered as a primary indicator while the qualitative indicators appear to be secondary. A few of these respondents say this could be because, for example:
 - (a) the quantitative indicator is objectively verifiable whereas the assessment of the qualitative indicators is more subjective and requires additional judgement;

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- (b) the quantitative indicator can signal that some or all of the qualitative indicators are already present or will become present;
 - (c) typically, in situations in which the quantitative indicator is met, the other indicators in paragraph 3 are mixed or inconclusive; and
 - (d) the relative weighting of the quantitative indicator typically increases as the cumulative inflation rate rises higher above 100%.
16. One respondent says the practice of stakeholders referring to the work of the International Practices Task Force (IPTF) of the Centre for Audit Quality (CAQ)—work developed for application by stakeholders applying US GAAP—can contribute to stakeholders considering the quantitative indicator as the most important indicator.
17. Two respondents (a national standard-setter and a large accounting firm) say the drafting of IAS 29—which includes only one quantitative indicator—might lead stakeholders to place more weight on that indicator and thereby hinder the application of judgement. They say the quantitative indicator could also be viewed to contradict the statement in the same paragraph that ‘[t]his Standard does not establish an absolute rate at which hyperinflation is deemed to arise.’
18. A few respondents (large accounting firms) provide examples of economies that they concluded were *not* hyperinflationary even though the cumulative three-year inflation rate exceeded 100% and vice versa. They say, in their experience with applying the indicators, the quantitative indicator is not always conclusive. Other facts and circumstances need to be considered.
19. Two respondents (a national standard-setter and a large accounting firm) say stakeholders tend to give more weight to the qualitative indicators if they seek to demonstrate that an economy is not hyperinflationary when the cumulative inflation rate exceeds 100%.

Considering indicators in addition to those listed in paragraph 3 of IAS 29

20. Many respondents (national standard-setters, large accounting firms and the group of security regulators) say they have observed (even if limited) consideration of indicators in addition to those listed in paragraph 3 of IAS 29—when relevant—including, for example:
- (a) International Monetary Fund (IMF) inflation projections and back-testing of those projections;
 - (b) local inflation data and currency exchange rates and monetary policies;
 - (c) whether the rise in the cumulative 3-year rate of inflation past 100% is rapid or gradual;
 - (d) the effect of unusual or non-recurring events, like natural disasters, geopolitical events and pandemics, which might cause a discrete ‘spike’ in inflation; and
 - (e) ‘global consensus’.
21. Respondents that have not observed consideration of other indicators say in their view, the list in paragraph 3 of IAS 29 appears to be adequate to reach an appropriate conclusion. They acknowledge paragraph 3 of IAS 29 does not prohibit considering other indicators.

Different conclusions about whether an economy is hyperinflationary at different levels within a group of companies

22. Three respondents (national standard-setters from South America and Asia-Oceania and the group of securities regulators) say they have not observed different conclusions about whether an economy is hyperinflationary at different levels within a group of companies.

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23. The other respondents say they have observed in particular situations:
- (a) a parent entity (which typically resides outside of the economy being considered for hyperinflation), in preparing consolidated financial statements, applying IAS 29 to the financial statements of a subsidiary that has a functional currency of a local economy that the parent entity assesses to be hyperinflationary (hyperinflationary subsidiary); and
 - (b) IAS 29 is not applied to the financial statements of the hyperinflationary subsidiary itself which are typically prepared for statutory local filings.
24. These respondents say such differences typically arise due to the provisions of specific laws or regulations within the jurisdiction considered for application of IAS 29. Respondents say in these situations, the hyperinflationary subsidiary's financial statements are either:
- (a) prepared with reference to a different or modified basis of preparation that refers to the provisions of the specific law or regulation which has been applied in preparing those financial statements; or
 - (b) if the basis of preparation refers to IFRS Accounting Standards, but does not comply with IAS 29, the audit report is modified.
25. One respondent (a large accounting firm) says because different entities within a group might be subject to different financial reporting and audit requirements, a degree of differing treatments is to be expected.
26. Two respondents (large accounting firms) say they have also observed a parent entity not applying IAS 29 to the financial statements of a subsidiary when preparing consolidated financial statements even though the subsidiary applied IAS 29 when preparing its own financial statements. However, this was because of materiality considerations and not because of different conclusions about when an economy becomes hyperinflationary.

Staff analysis

27. Paragraphs 28–34 below include our analysis of each of the three questions separately. Paragraphs 35–39 then assess whether the Committee should add the matter to the standard-setting agenda.

Question 1: Whether all indicators in paragraph 3 of IAS 29 should be considered even if one indicator is met

28. As paragraph 8 of this paper notes, the submitter asked whether all indicators in paragraph 3 of IAS 29 should be considered in assessing when an economy becomes hyperinflationary, including continuing to consider all indicators even when one indicator in paragraph 3 has been met. In other words, whether—in applying IAS 29—meeting just one of the indicators would be determinative in concluding whether an economy is hyperinflationary.
29. The responses to our information request (see paragraphs 14–19) evidence little to no diversity with respect to this question. All respondents say in their experience, multiple indicators are considered in assessing when an economy becomes hyperinflationary. The respondents do not have evidence of economies being concluded to be hyperinflationary based solely on any one of the indicators listed in paragraph 3 of IAS 29. As paragraph 18 notes, a few respondents provided examples of economies that they concluded were not hyperinflationary even though the cumulative three-year inflation rate exceeded 100% and vice versa.
30. Our outreach confirms stakeholders might give more weight to some indicators in particular situations. IAS 29 is silent on the weight to be given to the different indicators. Consequently:
- (a) the responses, in our view, evidence the application of judgement rather than diversity in understanding the requirements of IAS 29; and
 - (b) the question asked to the Committee is about the consideration of other indicators in situations in which one of the indicators has been met. It is not a

question about what weight should be assigned to the different indicators in paragraph 3 of IAS 29.

Question 2: Considering indicators other than those listed in paragraph 3 of IAS 29

31. As paragraph 8 notes, the second question asks whether IAS 29 requires considering indicators other than those listed in paragraph 3 of IAS 29 when relevant.
32. The responses to our information request (see paragraphs 20–21) evidence little to no diversity with respect to this question. As those paragraphs note:
 - (a) many respondents confirm they have observed (even if limited) consideration of indicators in addition to those listed in paragraph 3 of IAS 29 when relevant; and
 - (b) respondents who have not observed consideration of indicators other than those listed in paragraph 3 say this was because the list appears to be adequate and did not disagree that IAS 29 does not prohibit considering other indicators.

Question 3: Reaching different conclusions about when an economy becomes hyperinflationary at different levels within a group of companies

33. As paragraph 8 notes, the third question asks whether IAS 29 require both a subsidiary (in its financial statements) and a parent (in its consolidated financial statements) to consistently conclude on when an economy becomes hyperinflationary.
34. The responses to our information request (see paragraphs 22–26) evidence little to no diversity with respect to this question. While respondents sometimes observe different conclusions at different levels within a group, this is because of: (a) materiality considerations; or (b) financial statements at those different levels being prepared using a different or modified basis of preparation. If the basis of preparation refers to

IFRS Accounting Standards, but does not comply with IAS 29, the audit report is modified.

Should the Committee add this matter to the standard-setting agenda?

Does the matter have widespread effect and have, or is expected to have, a material effect on those affected?³

35. Assessing whether a matter has widespread effect requires considering not only whether the fact pattern or transaction described in the submission is prevalent, but also whether the existence of different views, and consequently, diversity in accounting for that fact pattern or transaction is widespread.
36. The information included in the submission and the findings from our information request indicate that the questions raised in the submission arise in many jurisdictions that are subject to higher levels of inflation and can be prevalent. However, as paragraphs 28–34 note, we have limited to no evidence of diversity in respect of the questions asked in the submission. Therefore, we have not, to date, obtained evidence that the matters have widespread effect.
37. Consequently, we recommend that the Committee does not add a standard-setting project to the work plan and instead publish a tentative agenda decision that explains its reasons for not adding a standard-setting project.
38. Our recommendation is:
 - (a) consistent with the approach the Committee has taken on other matters in which the transaction or fact pattern described in a submission could be common but for which the Committee has obtained little, if any, evidence of diversity in accounting (see for example, the agenda decisions [Merger between a Parent and its Subsidiary in Separate Financial Statements—IAS 27](#) and

³ Paragraph 5.16(a) of the [Due Process Handbook](#).

Presenting Comparative Amounts when a Foreign Operation First Becomes Hyperinflationary—IAS 21 and IAS 29).

- (b) based on evidence we obtained to date from our information request. Should there be additional evidence which could lead to a different conclusion on whether the matter is widespread, stakeholders will have the opportunity to share this by providing feedback to the tentative agenda decision.

Other considerations

39. As paragraph 3 of this paper notes, Agenda Paper 2B of this meeting asks for the Committee’s input about the application of IAS 29 and the usefulness of the information resulting from the application of IAS 29. Considering the view of the submission that ‘[t]he determination of whether an economy is hyperinflationary under IAS 29 is one of the most critical and contentious areas, given its profound implications for financial reporting’, we have included in that paper a question about what aspects of IAS 29 you are aware of that are particularly challenging, including your experiences with the scope requirements of IAS 29.

Staff recommendation

40. Based on our assessment of the work plan criteria in paragraph 5.16 of the *Due Process Handbook*, we recommend that the Committee does not add a standard-setting project to the work plan and instead publish a tentative agenda decision that explains its reasons for not adding a standard-setting project.
41. [Appendix A—Suggested wording for the tentative agenda decision](#) to this paper suggests wording for the tentative agenda decision.

Questions for the Committee

1. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan?
2. Does the Committee have any comments on the wording of the tentative agenda decision suggested in Appendix A to this paper?

Appendix A—Suggested wording for the tentative agenda decision

Assessing Indicators of when an Economy becomes Hyperinflationary (IAS 29 *Financial Reporting in Hyperinflationary Economies*)

The IFRS Interpretations Committee (Committee) received a request about the application of IAS 29 to identify when an economy becomes hyperinflationary.

The request asked:

- a. whether all indicators in paragraph 3 of IAS 29 should be considered in assessing when an economy becomes hyperinflationary, including continuing to consider all indicators even when one indicator in paragraph 3 has been met;
- b. whether IAS 29 requires the consideration of indicators other than those listed in paragraph 3 of IAS 29 when relevant; and
- c. whether IAS 29 requires both a subsidiary (in its financial statements) and a parent (in its consolidated financial statements) to consistently conclude on when an economy becomes hyperinflationary.

Findings

Evidence gathered by the Committee [to date] indicates little, if any, diversity in understanding the requirements for assessing when an economy becomes hyperinflationary—stakeholders:

- a. do not conclude that an economy becomes hyperinflationary based solely on one of the indicators listed in paragraph 3 of IAS 29;
- b. consider indicators other than those listed in paragraph 3 of IAS 29 when relevant; and
- c. do not reach different conclusions at different levels within a group when applying IFRS Accounting Standards.

Conclusion

Based on its findings, the Committee concluded that the matter described in the submission does not have widespread effect. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Appendix B—Submission

B1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of the request.

Submission on the interpretation challenges relating to the application of the indicators for determining when an economy is hyperinflationary in terms of IAS 29 *Financial Reporting in Hyperinflationary Economies (IAS 29)*

We welcome the opportunity to provide a submission on the interpretation challenges relating to the indicators for determining when an economy is hyperinflationary in terms of IAS 29. We have a strong presence and deep capabilities across 20 countries in sub-Saharan Africa. We have observed an increasing relevance of IAS 29 within the African continent due to the global economic environment's persistently high inflation.

We believe that the issues addressed in this letter would benefit from the IFRS Interpretations Committee's (IFRIC[®]) ability to provide immediate clarity and guidance on the interpretation challenges we have identified.

Introduction

In terms of due process, the first criteria, namely that the matter has widespread effect and has, or is expected to have, a material effect on those affected is critical in determining whether the questions will be addressed by the IFRIC. As such, in discussion with various stakeholders, we have noted that the matters addressed in this letter are widespread and has addressed these issues as well as other broader issues identified in IAS 29 in a separate submission to the IASB.

Context

The application of IAS 29 has become increasingly complex as more economies meet the quantitative indicators of hyperinflation. We, through our IFRS technical accounting team, have identified key issues that impede consistent and comparable financial reporting across our subsidiaries operating in hyperinflationary and potential hyperinflationary economies. While we acknowledge the need to provide transparent and meaningful financial information, we believe that the current requirements are not clear and present several challenges that must be addressed to ensure its effectiveness.

This submission deals with the indicators for determining hyperinflationary economies. The determination of whether an economy is hyperinflationary under IAS 29 is one of the most critical and contentious areas, given its profound implications for financial reporting. The standard provides both

qualitative and quantitative indicators to assess hyperinflation, yet the practical application of these indicators varies significantly, leading to inconsistency and divergence in financial statements.

1.1 Diverse Interpretations in Practice

The standard's requirement to consider multiple indicators has led to varied interpretations, especially regarding the 3-year cumulative inflation quantitative indicator versus qualitative factors.

View A: Audit firms often place a predominant focus on the 3-year cumulative inflation rate exceeding 100%. This quantitative indicator, being easily measurable and auditable, tends to overshadow the qualitative indicators, which are more subjective and require professional judgment. This approach, while practical, can lead to premature or inappropriate application of IAS 29, especially in cases where the 3-year cumulative inflation rate is met due to short-term, exceptional spikes rather than sustained economic instability.

View B: From a broader market perspective, professional judgment is more widely applied, considering all indicators outlined in IAS 29, as the standard does not establish an absolute rate at which an economy is deemed hyperinflationary. This approach acknowledges that hyperinflation is not merely a function of the cumulative inflation rate but also of various economic factors that may not be immediately quantifiable.

1.2 Conflicting Guidance Between Regulators and Audit Firms

Another significant challenge arises when country regulators or local accounting bodies issue official positions on the hyperinflationary status of an economy, which may conflict with the views of global audit firms. This divergence creates substantial uncertainty for multinational entities operating in such jurisdictions.

View A: Audit firms within hyperinflationary economies typically align to guidance issued by country regulators or local accounting bodies. Globally, audit firms independently issue guidance, which may differ from the guidance issued in-country. This situation places multinational entities in a difficult position given the different application by audit firms in-country versus globally.

View B: In several instances, country regulators, acting in what they deem a reasonable manner, issue directives on whether the economy is hyperinflationary, requiring local entities to comply with these directives. These positions are typically grounded in a holistic view of the economy, considering both qualitative and quantitative indicators and should be applied consistently within a Group scenario.

Case Example: Ghana in 2023

During the 2023 reporting period, Ghana's economy was flagged by global audit firms as hyperinflationary based on the 3-year cumulative inflation rate exceeding 100%. However, the Institute of Chartered Accountants Ghana (ICAG) issued a directive stating that IAS 29 would not apply, citing a downward trend in inflation and arguing that the qualitative indicators did not support hyperinflationary classification. Our own assessments aligned with ICAG's view, recognising the stability of the Ghanaian Cedi against major currencies and the trend of declining inflation rates. Despite this, the divergence between ICAG and global audit firms created challenges in ensuring consistent financial reporting within the our group.

We note that the differences in outcome between the two interpretations in both sub-issues are substantial and potentially create significant diversity in practice. We have outlined some of the differing views we have noted in Appendix 1: *Additional guidance and publications relating to economies which are assessed as hyperinflationary*.

We support that View B should be applied in both sub-issues. As an organisation which operates within emerging markets, where inflation rates are generally higher than the global average, it becomes increasingly important to assess all the indicators, both qualitative and quantitative, to determine whether the economy is indeed hyperinflationary, as our interpretation of the standard is to capture extreme inflation which would erode the value of the local currency and would often result in a switch from local currency to a more stable currency. We believe that View B is further supported and consistent with the principles in Module 31 of IFRS for SMEs which provides examples of how all indicators outlined in IAS 29 should be considered. The IASB has further received a request to amend the 100% cumulative threshold and have noted in declining this request that the threshold to enter hyperinflation should be very high and not limited to just the quantitative threshold. Extracts of the SME and other submissions relating to hyperinflation have been included in Appendix 2: *IFRS for Small and Medium-Sized Entities (SMEs) and Other IASB requests/submission relating to hyperinflation*.

We believe that clarification of these issues would considerably enhance the quality of financial reporting. Furthermore, we note the importance for consistency and comparability of multinational and domestic entities aligning their financial reporting to the local regulatory guidance. This consistency is particularly important for investors and analysts which often look through to subsidiary accounts when analysing the group.

Request

We request clarification from the IFRIC on:

1. Whether all indicators in IAS 29 paragraph 3 should be considered in the assessment of when an economy becomes hyperinflationary, including continuing to consider all indicators even when one indicator in IAS 29 paragraph 3 has been met?
2. Whether other indicators not included in the standard, such as rate of change of currency, year-on-year inflation, etc, should be considered in the assessment of when an economy becomes hyperinflationary given that IAS 29 paragraph 3 is not an exhaustive list?
3. Whether IAS 29 paragraphs 4 and 35 require both a subsidiary and the group which consolidates the subsidiary to apply IAS 29 consistently, including commencing application of hyperinflation at the same date? Clarification will be valuable and enable consistent accounting application across multinational group entities and would align to the principles in the Conceptual Framework for Financial Reporting.

Conclusion

We appreciate the opportunity to contribute to the ongoing discussion regarding the application of IAS 29. The challenges outlined in this submission are not unique to us or our jurisdiction but are relevant to all IFRS preparers operating partially or wholly in hyperinflationary economies or economies which may become hyperinflationary. We believe that by addressing these issues, the IFRIC can enhance the consistency, comparability, and reliability of financial reporting in hyperinflationary contexts, thereby providing more meaningful and relevant information to investors and other stakeholders.

Appendices

Appendix 1: Additional guidance and publications relating to economies which are assessed as hyperinflationary

Appendix 2: IFRS for Small and Medium-Sized Entities (SMEs) and Other IASB requests/submission relating to hyperinflation

Appendix 1 [to the submission]: Additional guidance and publications relating to economies which are assessed as hyperinflationary

KPMG publication that states the following: *“Both IFRS and US GAAP explicitly recognize that identifying hyperinflation requires judgment. But while the assessment methodologies are not aligned, in our experience, conclusions about the hyperinflationary status generally do not diverge.”*

(<https://kpmg.com/us/en/articles/2023/hyperinflationary-economies.html>)

Grant Thornton publication that states the following: *“The Standard lists factors that indicate an economy is hyperinflationary. One of the indicators of hyperinflation is if cumulative inflation over a three-year period approaches, or is in excess of, 100 per cent. This is often seen in practice as being a particularly significant indicator given that under US GAAP this threshold is considered a ‘bright-line’ in terms of whether an economy is hyperinflationary or not. While IAS 29 differs from US GAAP in referencing other indicators of hyperinflation, there is nevertheless a natural desire for a certain amount of consistency between IFRS and US GAAP in terms of which economies are considered hyperinflationary. The International Practices Task Force (IPTF) of the Centre for Audit Quality (CAQ) in the US independently determined last month that Turkey has hyperinflationary economy.”*

(<https://www.grantthornton.global/globalassets/1.-member-firms/global/insights/article-pdfs/ifrs/alert-2022-02-hyperinflation-update-for-turkey.pdf>)

Deloitte publication that states the following: *“IAS 29 ‘Financial Reporting in Hyperinflationary Economies’ defines and provides general guidance for assessing whether a particular jurisdiction’s economy is hyperinflationary. But the IASB does not identify specific jurisdictions. The International Practices Task Force (IPTF) of the Centre for Audit Quality (CAQ) monitors the status of ‘highly inflationary’ countries. While it monitors the status of highly inflationary countries for the purposes of applying US GAAP, its criteria for identifying such countries are similar to those for identifying ‘hyperinflationary economies’ under IAS 29.”*

(<https://www.iasplus.com/en/news/2023/12/hyperinflationary-economies>)

The Institute of Chartered Accountants, Ghana (ICAG) published a directive in which it exercised its professional judgement in considering all five indicators in IAS 29. Per the ICAG assessment the qualitative indicators were not present and explained Ghana’s cumulative inflation for 2023 as an exception/once-off due to the increase in inflation rates during fourth quarter of 2022, which was further supported by the downward trend during 2023. As a result, the directive concluded that IAS 29 would not be applicable for December 2023 financial reporting period since Ghana is not operating in a hyperinflationary economy. (<https://www.icagh.org/wp-content/uploads/2024/04/Hyperinflationary-Paper-Final.pdf>)

The Institute of Chartered Accountants in Malawi (“ICAM”) published a Public Notice No. PN2024-009 UPDATE ON THE APPLICATION OF IAS 29 Financial Reporting in Hyperinflationary Economies (“IAS 29”) IN MALAWI, in which it exercised its professional judgement in considering all five indicators in IAS 29. Considering that the objective of IAS 29 is to provide reporting guidance for entities operating in a hyperinflationary economy, in order to provide meaningful financial information, ICAM concluded that, all factors considered, Malawi’s economic environment is not “hyperinflationary” in terms of IAS 29, and that “hyperinflationary reporting” prescribed by IFRS is therefore “not applicable”. The Institute will continue to monitor the economic environment in the country and advise stakeholders accordingly. (<https://www.icam.mw/wp-content/uploads/2024/09/Assessment-of-Hyperinflation-in-Malawi-30-June-2024.pdf>)

Appendix 2 [to the submission]: IFRS for Small and Medium-Sized Entities (SMEs) and Other IASB requests/submission relating to hyperinflation

IFRS for Small and Medium-Sized Entities (SMEs)

Extracts from Module 31 – Hyperinflation (Module 31)

Paragraph 31.2 states that: *“This section does not establish an absolute rate at which an economy is deemed hyperinflationary. An entity shall make that judgment by considering all available information including, but not limited to, the following possible indicators of hyperinflation:*

- (a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.*
- (b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.*
- (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.*
- (d) interest rates, wages and prices are linked to a price index.*
- (e) the cumulative inflation rate over three years is approaching, or exceeds, 100 per cent.”*

The notes further explain: *“Determining whether an economy is hyperinflationary requires judgement and does not depend solely on the level of cumulative inflation over a certain period of time. It is preferable that all entities that report in the currency of the same hyperinflationary economy should apply Section 31 from the same date. Nevertheless, Section 31 applies to the financial statements of any entity from the beginning of the reporting period in which it identifies the existence of hyperinflation in the economy of a country in whose currency it reports (see paragraph 31.9). As noted in paragraph 10 of IAS 29 Financial Reporting in Hyperinflationary Economies, the consistent application of judgement from period to period is more important than the precise accuracy of the resulting amounts included in the restated financial statements. The absolute level of inflation and the cumulative inflation rate over a certain period of time can indicate hyperinflation. However, indicators are not conclusive on their own and hyperinflation analysis usually requires the assessment of various indicators.”*

Ex 4 SME B’s primary economic environment is Country W. General price levels in Country W, expressed in its local currency, have been rising during the last five years at an average rate of 40%

per year. Market agents generally consider Country W's risk as high, mainly due to political instability that leads to uncertain economic policy and loose monetary policy. Both local and foreign agents generally avoid holding financial positions in the local currency. Financial assets denominated in local currency are usually cash equivalents with high liquidity and subject to interest rates that reflect future expected inflation. Household savings are often used to buy properties (non-monetary assets) that are considered 'safe assets' that generally prevent losses in the purchasing power of the local currency.

Most indicators of hyperinflation relate to economic agents' preferences and terms of contracts in the economy (in a hyperinflationary economy, agents avoid holding cash for more than a short time because its purchasing power decreases quickly).

Consequently, in a hyperinflationary economy, agents quickly convert cash into non-monetary assets (property or inventories), financial assets that offer at least inflation-adjusted restatement on the basis of price indexes, or into other more stable currencies in order to preserve their purchasing power.

In hyperinflationary conditions, contracts that determine future cash flows between parties often contain indexing clauses to ensure that amounts of future cash flows that were agreed at current prices (at the contract date) preserve the purchasing power of such cash flows when settled in terms of cash.

Country W is hyperinflationary—economic agents in Country W avoid the local currency as a wealth reserve because there is a high risk of unexpected volatility in price levels that could significantly deteriorate currency purchasing power.

Furthermore, accumulated inflation in three years exceeds the 100% indicative rate.

Other IASB requests/submission relating to hyperinflation

In 2015, the IASB received a request from the Group of Latin American Accounting Standard Setters (GLASS) to consider eliminating or reducing the inflation rate threshold currently included in IAS 29 to identify when hyperinflation exists. The IASB was asked to consider changing the hyperinflation decision to 8 per cent per annum i.e., cumulatively 26 per cent over a 3-year period. Whilst the IASB decided against lowering inflation threshold, the analysis performed as part of the research programme on the request highlighted that: *"if the indicator had been 100 per cent over three years, IAS 29 would have been likely to be applied for 37 jurisdictions. However, if the indicator had been 26 per cent over three years, IAS 29 would have been likely to be applied far more frequently, and by entities in more jurisdictions (74), than is the case using the existing indicator. (As a reminder, the indicator is just one of several indicators; it is not an absolute threshold)."*

(<https://www.ifrs.org/content/dam/ifrs/meetings/2016/may/iasb/2015-agenda-consultation/ap24f-high-inflation-feedback-received-agenda-consultaion.pdf>).

The wording in this IASB document confirms that 3-year cumulative inflation quantitative indicator is one of the several indicators and not an absolute threshold.

On considering the request to lower the threshold, The IASB's user advisory group, the Capital Markets Advisory Committee (CMAC) highlighted that: “*CMAC members thought that IAS 29 should only be used when it was obvious that a country was going through a major economic readjustment and the currency is, effectively, irrelevant—the test must be very high.*”

(<https://www.ifrs.org/content/dam/ifrs/meetings/2015/february/capital-markets-advisory-committee/meeting-summary/meeting-summary-feb-15.pdf>).

Importantly when the request was being discussed, it was stated that the test must be very high, thereby confirming that the intention of the standard is to capture extreme cases of inflation and not just high inflation rates.

The above is consistent with views shared by the GLASS in response to the Exposure Draft CIPFA/ED/2023/2 *International Non-Profit Accounting Guidance* question 11 on hyperinflation, in which they commented that the qualitative indicators and not only the quantitative indicator should be evaluated. (<https://www.ifr4npo.org/wp-content/uploads/ninja-forms/33/GLASS-comment-letter-on-INPAG-ED2.pdf>)