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IASB® Meeting

Date	**January 2025**
Topic	**IAS 29 *Financial Reporting in Hyperinflationary Economies*—Feedback**
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Purpose of this paper

Horizon scanning[1] has revealed challenges and concerns about the application of IAS 29 *Financial Reporting in Hyperinflationary Economies.*

We think it is important for the International Accounting Standards Board (IASB) to be aware of those challenges and concerns.

Consequently, in this paper we intend to inform IASB members about feedback on stakeholders' experiences, challenges and concerns in this area.

This paper summarises feedback from stakeholders and includes no staff analysis of that feedback or any recommendations on how to address that feedback. We are not asking the IASB to make decisions at this meeting.

The information in this paper could help inform future IASB discussions, for example, its discussions on the next agenda consultation.

1. The International Accounting Standards Board (IASB) regularly engages in horizon scanning to keep up to date with stakeholder concerns.

Structure

This paper includes:

(a) background information (slides 4–9);

(b) feedback summary (slides 10–19); and

(c) question to the IASB (slides 20–21).

Appendix A includes extracts from a stakeholder letter setting out some concerns.

Appendix B provides an overview of IAS 29 and reproduces selected excerpts from IAS 29

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Background

Background information

The Request for Information (RFI) on the IASB's third agenda consultation, identified inflation as a possible project. This was because some stakeholders said information prepared applying IAS 29 could be more useful. Specifically, they said:

(a) the scope of IAS 29 should be extended to include economies experiencing high inflation, because long periods of high inflation can affect the relevance of the information included in the financial statements;

(b) the Standard relies on a general price index, which may not be reliable or available; and

(c) restated financial statements of a foreign operation in a hyperinflationary environment are difficult to understand.

Most respondents to the RFI rated a project about inflation as low priority.[1]

Note:

At that time, the IASB decided **not** to add a project about inflation to its work plan.

1. See page 25 of the Third Agenda Consultation - Feedback Statement and paragraphs 68–71 of Agenda Paper 24D of the IASB's November 2021 meeting for more information on the feedback to the RFI.

Background information (cont'd)

Stakeholders informed us that the economic landscape has changed since the IASB completed its third agenda consultation.

More economies are experiencing high rates of inflation and entities that have a functional currency of that economy (or have foreign operations with functional currencies of those economies) are having to assess whether, and if yes then how to, apply IAS 29.

Stakeholders say the following concerns have become more prevalent:

(a) assessing when an economy becomes hyperinflationary;

(b) the cost and complexity of applying IAS 29; and

(c) usefulness of the resulting information.

Background information (cont'd)

At its meeting in November 2024, the IFRS Interpretations Committee (Committee) discussed a submission about assessing the indicators of a hyperinflationary economy in paragraph 3 of IAS 29.[1]

The submitter also expressed concerns about:

(a) the usefulness of information resulting from applying IAS 29; and

(b) the complexity of incorporating a foreign operation with a hyperinflationary functional currency[2] into a reporting entity's financial statements.

Appendix A includes more information about these concerns.

1. The IFRS Interpretations Committee published a tentative agenda decision on the submission which is open for comment until 3/2/2025.
2. Throughout this paper, we refer to the currency of an economy that is hyperinflationary as a hyperinflationary currency and the currency of an economy that is not hyperinflationary as a non-hyperinflationary currency.

Background information (cont'd)

The letter [see Appendix A] states:

> The application of IAS 29 has become increasingly complex as more economies meet the quantitative indicators of hyperinflation…[IAS 29] introduces several challenges that question its reliability and usefulness.

The letter requests the IASB to undertake standard-setting to address these concerns.

We also heard similar concerns and requests from:

(a) stakeholders from different regions—Africa, Latin America and Asia; and

(b) different stakeholder types—multi-national companies, accounting standard-setters and professional accounting bodies.

Background information (cont'd)

In addition to concerns raised in the letter and informal discussions with stakeholders, we sought input from members of the Committee and the IASB's Emerging Economies Group (EEG) at their meetings in November 2024 and December 2024, respectively.

We asked Committee and EEG members:

1. whether they have become aware of significant and more pressing concerns about the application of IAS 29 since the completion of the third agenda consultation and what gave rise to those concerns?
2. what aspects of IAS 29 are particularly challenging and why?
3. whether they are aware of concerns about the usefulness of information resulting from the application of IAS 29 and what those concerns are?

Feedback Summary

Overview

Stakeholders provided feedback about:

(a) usefulness of information resulting from applying IAS 29 (see slides 12–13);

(b) challenges in applying scope requirements in IAS 29 (see slides 14–15); and

(c) other challenges in applying IAS 29 (see slide 16).

Stakeholders also provided suggestions to address some of the challenges. Slides 17–19 summarise those suggestions.

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Usefulness of information resulting from applying IAS 29

Many stakeholders say users of financial statements often do not understand financial statements prepared applying IAS 29. They say:

(a) users prefer to see results and financial position expressed in a non-hyperinflationary currency.

(b) users ask entities to, for example, explain what components of growth in an entity's results are due to inflation as opposed to the entity's operations.

(c) IAS 29 does not reflect economic reality, particularly because it requires only non-monetary items to be restated. This treatment creates 'basis risk' when an entity holds non-hyperinflationary monetary assets (such as hard currency) and distorts the true economic performance. Appendix 1 of the stakeholder letter included in Appendix A of this paper includes an example of basis risk.

(d) translating the results and financial position of a foreign operation that has a hyperinflationary functional currency [and has consequently applied IAS 29] might distort an entity's performance. This is because typically the exchange rate used under IAS 21 does not fully reflect differing price levels between two economies—IAS 29 requires an entity to use changes in the hyperinflationary economy's price levels.

Usefulness of information resulting from applying IAS 29 (cont'd)

However, a few stakeholders say even though IAS 29 is complex, the information provided applying IAS 29 is useful—in their view:

(a) reporting operating results and financial position in a hyperinflationary economy without restatement is not useful and would not reflect economic reality;

(b) whilst entities might face some challenges in initially applying IAS 29 and users might have challenges in initially understanding financial statements prepared applying IAS 29, the information provided is subsequently seen as being useful;

(c) the accounting required by IAS 29 should be applied not just when an economy is hyperinflationary, but also when it is subject to high inflation.

Challenges in applying scope requirements in IAS 29

Paragraph 3 of IAS 29 (reproduced in Appendix B) states that the Standard does not establish an absolute rate at which hyperinflation is deemed to arise. It then lists some characteristics of a hyperinflationary economy. Paragraph 4 of IAS 29 (also reproduced in Appendix B) states a preference for all entities that report in a hyperinflationary currency to apply the Standard from the same date.

Stakeholders most frequently comment on challenges in applying the scope requirements in IAS 29. In particular, stakeholders say:

(a) applying the scope requirements is difficult, subjective and judgemental—while stakeholders generally take different characteristics into consideration when assessing whether an economy is hyperinflationary, stakeholders have different views on the weight to be assigned to the different characteristics listed in paragraph 3 (and other characteristics). For example, some stakeholders place a predominant (and some say, undue) weight on the characteristic in paragraph 3(e) (quantitative characteristic) because that characteristic is less subjective.

(b) the subjective and judgemental nature of the assessment makes it difficult to arrive at a consensus view between different stakeholders, such as auditors, national regulators, multi-national companies, entities operating only in the local jurisdiction.

[cont'd]

Challenges in applying scope requirements in IAS 29 (cont'd)

(c) The lack of guidance, illustrative examples and basis for conclusions on the scope requirements in IAS 29 makes it difficult to assess whether in specific situations, an entity should apply IAS 29. For example:

  (i) an economy might demonstrate the characteristics in paragraph 3 of IAS 29 due to a one-off event such as a severe draught or temporary political unrest. It is unclear whether the economy should be considered hyperinflationary for the purposes of applying IAS 29 if the effects of such events on the economy are expected to be temporary. Stakeholders say the benefits of applying IAS 29 to an economy that is hyperinflationary for only a short period of time (eg one or two years) do not outweigh the costs.

  (ii) while paragraph 3 of IAS 29 does not preclude considering characteristics beyond those listed in that paragraph, it is unclear as to whether, and to what extent, forward-looking characteristics, such as projected inflation rates and inflation trends, can be considered.

Other challenges in applying IAS 29

Stakeholders raise challenges on the application of IAS 29. They say the process of restating financial statements under IAS 29 is costly and complex.

In particular, stakeholders say:

(a) identifying and applying appropriate price indices in economies that are hyperinflationary can be challenging. In many cases, the availability and reliability of price indices are questionable.

(b) the initial application of IAS 29—on a retrospective basis as required by the Standard—can be challenging and require significant costs and effort.

(c) the lack of application guidance and examples illustrating how to apply the requirements in IAS 29 results in a lack of clarity in how the requirements in IAS 29 interact with the requirements in other IFRS Accounting Standards, such as IFRS 9 *Financial Instruments*, IFRS 16 *Leases,* IAS 2 *Inventories*, and IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Page 11 of a presentation by a member of the EEG at the October 2023 EEG meeting explains some of these challenges.

Stakeholder suggestions—General

Stakeholders provide suggestions[1] to address some of the challenges. However, stakeholders have mixed and diverse suggestions.

(a) Some say addressing identified challenges would require a long-term and large project involving:

- (i) understanding user information users needs, for example: whether users find information provided applying IAS 29 useful, and if so, in what situations; or if users do not find information provided applying IAS 29 useful why, and what information they would prefer to receive instead.
- (ii) developing solutions that would provide users with that information and concurrently addressing any application challenges.

(b) Some suggest a more targeted, narrow-scope project to address what is, in their view, pressing and urgent challenges in applying the scope requirements in IAS 29. Slide 18 summarises specific suggestions to address scope.

Slide 19 summarises other suggestions from stakeholders.

1. As noted on slide 2, we did not analyse the suggestions from stakeholders.

Stakeholder suggestions—Scope of IAS 29

As slide 17 notes, some stakeholders suggest a targeted, narrow-scope project to address challenges in applying the scope requirements in IAS 29. These suggestions include:

(a) making the meeting of the quantitative characteristic a rebuttable presumption that an economy is hyperinflationary. This presumption can be rebutted based on other indicators. However, some stakeholders say this approach would not remove subjectivity and judgement and would result in limited change in practice.

(b) making the quantitative characteristic a 'bright-line' test and removing the other indicators—eg an economy would be considered hyperinflationary if the cumulative inflation rate over three years exceeds 100%. Stakeholders say this would remove subjectivity and judgement. However, some stakeholders say such an approach could result in inappropriate conclusions—for example, it could lead to inappropriately concluding that an economy is hyperinflationary only because of a one-off event that caused only a temporary spike in the rate of inflation.

(c) deleting the quantitative characteristic. However, some stakeholders said doing so would not address concerns about subjectivity and judgement.

(d) amending the list of characteristics in paragraph 3 to include forward-looking indicators, for example, projected trends in inflation rates.

Stakeholder suggestions—Other

Other suggestions from stakeholders include:

(a) developing application guidance or illustrative examples to help address challenges in applying IAS 29 (see slides 15 for application challenges);

(b) similar to requirements in US GAAP, allowing or requiring prospective—and not retrospective—application when an entity first applies IAS 29;[1]

(c) requiring entities to disclose additional information to help users understand better the information prepared applying IAS 29. A few stakeholders suggested removing IAS 29 and instead requiring entities that have a hyperinflationary functional currency to make specific disclosures.

1. As paragraph BC16 of IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* notes, “respondents’ reference to prospective application under US GAAP reflects requirements only for investments in foreign entities in hyperinflationary economies…Under US GAAP a foreign entity’s financial statements are remeasured into its investor’s functional currency…this approach is different from the restate/translate approach under [IFRS Accounting Standards].”

Question to the IASB

Do you have comments or questions on the feedback in this paper?

Appendix A—Stakeholder letter

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Email: ifric@ifrs.org

Dear Sir/Madam,

Submission on the interpretation challenges relating to the application of the measurement model in terms of IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29)

[We] welcome the opportunity to provide a submission on the interpretation challenges faced in applying the measurement model 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.

…

Context

The application of IAS 29 has become increasingly complex as more economies meet the quantitative indicators of hyperinflation. [We have] identified several 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 standard, in its existing form, presents several challenges that must be addressed to ensure its effectiveness.

This submission deals with the following key issues:

1. Reliability and Usefulness of Constant Purchase Power Accounting.

2. Presentation of IAS 29 Restatements in Consolidated Financial Statements when the group entity is not hyperinflationary.

Issue 1: Reliability and Usefulness of Constant Purchase Power Accounting

IAS 29 mandates the restatement of financial statements using constant purchase power accounting to reflect the effects of hyperinflation. While this approach aims to preserve the comparability and relevance of financial information, it introduces several challenges that question its reliability and usefulness.

1.1 Distortion of Economic Reality

The current application of constant purchase power accounting under IAS 29 can lead to financial results that do not accurately reflect the economic reality of an entity’s operations. This is particularly evident that only non-monetary items are indexed, which creates basis risk when an entity holds non-hyperinflationary monetary assets (such as hard currency) and distorts the true economic performance. This basis risk exists due to exchange rates not always being directly correlated with inflation.

For example, in hyperinflationary economies, entities often hold hard currency as a natural hedge against inflation. However, the current IAS 29 approach can result in a situation where holding hard currency appears less economically beneficial than holding non-monetary assets, despite the former being a more effective hedge against inflation. This disconnect between the accounting outcomes and economic reality undermines the relevance and faithful representation of financial information, as outlined in the IASB's Conceptual Framework. Refer to Appendix 1: *Detailed Example of Basis Risk under IAS 29 in Hyperinflationary Economies*.

1.2 Operational Challenges and Complexity

The process of restating financial statements under IAS 29 involves complex calculations, particularly in identifying and applying appropriate price indices. In many cases, the availability and reliability of such indices are questionable, leading to further subjectivity and variability in the financial statements of entities operating in the same economy.

Case Example: Zimbabwe 2024

In Zimbabwe, the official Consumer Price Index (CPI) exhibited extreme volatility, moving from 65,703 in December 2023 to 258,942 in February 2024. This volatility not only caused significant swings in financial reporting outcomes but also made it challenging for entities to provide consistent and understandable financial information to stakeholders. The current IAS 29 requirements, by not accommodating such volatility, exacerbate the operational difficulties and contribute to less reliable financial reporting.

1.3 Misalignment with Investor Expectations

The restatement of financial results under IAS 29 often produces outcomes that are not aligned with investors' expectations or the economic fundamentals they use to evaluate companies. For instance, investors typically assess returns in nominal terms, not in constant purchase power terms. The adjustments made under IAS 29, with considerable effort, can therefore lead to confusion and reduce the comparability of financial information across entities and industries.

The US GAAP measurement model for entities operating in a high inflationary (hyperinflationary) economy is to change their functional currency to the reporting currency of the immediate parent entity when the parent entity is operating in a non-hyperinflationary economy. This approach eliminates basis risk and provides a more accurate reflection of the economic reality faced by entities in hyperinflationary environments. Refer to Appendix 2: *Comparison of IAS 29 and US GAAP Approaches to Hyperinflation*.

…

Issue 2: Presentation of IAS 29 restatements in consolidated financial statements when the group entity is operating in an economy that is not hyperinflationary

The consolidation of financial results of entities operating in hyperinflationary economies into a multinational group's financial statements presents unique challenges particularly regarding the presentation of restatements. The interaction between IAS 29 and IAS 21 *The Effects of Changes in Foreign Exchange Rates* (IAS 21) often leads to significant volatility in the consolidated group earnings, which may not reflect the underlying economic reality.

2.1 Volatility in the consolidated group earnings

IAS 21.42(a) requires that all amounts of a hyperinflationary entity be translated at the closing rate at the reporting date. For multinational entities, this often results in substantial losses at the consolidated group level, as the combined effects of IAS 29 restatements and IAS 21 exchange rate adjustments can significantly erode reported earnings.

For instance, in cases where the local price index and currency have devalued substantially, the group entity may recognise significant losses on both the IAS 29 restatement and the IAS 21 closing rate translation. These accounting adjustments can sometimes eliminate the total earnings of the hyperinflationary foreign operation, presenting a distorted view of the entity's financial health. One potential solution could involve recognising IAS 29 restatements directly in equity or other comprehensive income, rather than in profit or loss. This approach could help mitigate the earnings volatility that currently arises from the combined application of IAS 29 and IAS 21.

2.2 Inconsistencies in Comparative Information

IAS 21 does not require the restatement of comparative information for group entities whose reporting currency is not hyperinflationary. This creates inconsistencies in the presentation of financial results, particularly when comparing current year results with those of prior periods. The lack of clarity in how these adjustments should be presented further complicates the consolidation process.

…

Appendix 1: Detailed Example of Basis Risk under IAS 29 in Hyperinflationary Economies

Zimbabwean entity with ZWL functional currency – 1 January 2024 to 28 February 2024

- The ZWL currency devalued by 145%:
  1 January 2024 = USD/ZWL 6 105
  28 February 2024 = USD/ZWL 14 939
- The ZWL inflation index devalued by 294%:
  1 January 2024 = 65 703
  28 February 2024 = 258 942
- On 1 January 2024, assume Zimbabwe is a hyperinflationary economy. An entity has USD100 in capital (kept in ZWL - being the local currency) and immediately the management team decides to hold USD100 as a hedge for hyperinflation risk (often being the best (if not only) hedge compared to other non-monetary hedges available in African markets).
- At the reporting date the monetary item is revalued at the official exchange rate and the non-monetary equity base funding the asset is rebased using the official inflation index.
- This basis risk creates volatility for financial reporting in earnings, and is not reflective of economic reality to shareholders, as the entity had USD100 on 1 January 2024 and still has the same USD value on 28 February 2024.

Applying the accounting

- The entity starts with USD100 funded by the ZWL equivalent of USD100 (being ZWL 610 500).
- The currency position is revalued to spot, and the funding (in equity) is revalued to the current purchasing power using the inflation index.
- If the results are converted back to USD spot on 28 February 2024 at USD/ZWL14 939, then IAS 29 shows shareholders that the entity suffered a USD61 loss in purchase power.
- This is misleading and not reflective of the real cash flow or dividend ability as the entity still holds $100.

USD/ZWL spot rates		6 105		14 939	
Date		**1 January 2024**		**28 February 2024**	
	USD	**ZWL**	**Devaluation**	**ZWL**	**USD**
Cash	100	610 500	145%	1 493 900	100
Equity	(100)	(610 500)	294%	(2 406 041)	(161)
Profit or loss:				**(912 141)**	**(61)**
IAS 21 translation gain				883 400	59
IAS 29 hyperinflation loss				(1 795 541)	(120)

Appendix 2: Example of difference between IFRS reporting and US GAAP for hyperinflation

A South African based group incorporates a Ghanaian entity on 1 January 2023 and injects 1 million Ghanaian Cedi (GHS) in an interest-bearing account within this entity. This GHS 1 million is extracted out of Ghana on 31 December 2023. It is assumed that Ghana has been triggered as a hyperinflationary economy on 1 January 2024.

For illustration purposes, the calculations in this example have been simplified as no tax has been applied and typically the calculations would be prepared monthly rather than on a yearly basis.

The facts and assumptions used in this example are as follows:

Exchange rates	
South African Rand (ZAR) / GHS exchange rate at 1 January 2023	0,60
Average ZAR / GHS exchange rate for 2023	0,63
ZAR / GHS exchange rate at 31 December 2023	0,65
Inflation	
Year-on-year inflation for Ghana in 2023	23,2%
Interest rate	
Average interest rate earned for the year	15%

In this example, the South African based group entity would have injected ZAR 1 666 667 into the Ghanian entity. The GHS 1 million would have earned GHS 150 000 of interest. The resultant GHS 1 150 000 would be converted back to ZAR 1 769 231 on 31 December 2023 which would represent an economic return of 6,2%.

Application of IAS 29

The journal entries would be recognised by IFRS would be as follows:

Dr	Bank	GHS 1 000 000
Cr	Share capital and share premium	(GHS 1 000 000)
Recognition of capital injection of GHS 1 000 000		
Dr	Bank	GHS 150 000
Cr	Interest income	(GHS 150 000)
Recognition of 15% interest		
Dr	Hyperinflation loss	GHS 232 000
Cr	Equity	(GHS 232 000)
Re-basing or indexing of opening equity using the CPI index		

Note: The indexing of the income statement has not been illustrated as it has no impact on overall profit or loss

Given the above journals, the loss recognised by the Ghanian entity would be GHS 82 000. This would be translated into the ZAR group at the closing rate of 0,65 ZAR/GHS. A net loss of ZAR 126 154 would be recognised by the ZAR group entity which would represent a loss of 7,6%. This reflects a vast difference between to the actual 6,2% economic return earned.

Application of US GAAP

The journal entries recognised by US GAAP, which would use the ZAR reporting currency to account of the subsidiary, would be as follows:

Dr	Bank	ZAR 1 666 667
Cr	Share capital and share premium	(ZAR 1 666 667)
Recognition of capital injection of GHS 1 000 000 at the ZAR exchange rate on 1 January 2023		
Dr	Bank	ZAR 238 095
Cr	Interest income	(ZAR 238 095)
Recognition of 15% interest converted to ZAR at the average exchange rate 2023		
Dr	Exchange loss	ZAR 135 531
Cr	Bank	(ZAR 135 531)
Exchange loss recognised when converting the GHS 1,15 million into ZAR at ZAR at the closing exchange rate for 2023		

Given the above journals, the profit recognised by the Ghanian entity with the ZAR group entity would be ZAR 102,546 which is reflective of a 6,2% return and is representative of the economic return made.

Appendix B—Overview of IAS 29 and selected excerpts from the Standard

Overview of IAS 29[1]

IAS 29 applies to any entity whose functional currency is the currency of a hyperinflationary economy.

Hyperinflation is indicated by factors such as prices, interest and wages linked to a price index, and cumulative inflation over three years of around 100 per cent or more.

In a hyperinflationary environment, financial statements, including comparative information, must be expressed in units of the functional currency current as at the end of the reporting period. Restatement to current units of currency is made using the change in a general price index. The gain or loss on the net monetary position must be included in profit or loss for the period and must be separately disclosed.

Note:
IAS 29 was issued by the International Accounting Standards Committee (predecessor to the International Accounting Standards Board (IASB)) in August 1990.

1. Reproduced from the 'About' tab at IAS 29 Financial Reporting in Hyperinflationary Economies

Selected excerpts from IAS 29—Scope (1 of 3)

1. **This Standard shall be applied to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.**

2. In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

Selected excerpts from IAS 29—Scope (2 of 3)

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;

   (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%.

Selected excerpts from IAS 29—Scope (3 of 3)

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.

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