Accounting

Agenda reference 05

IFRS® Interpretations Committee meeting

Date **March 2025**

Project **Exposure Draft *Translation to a Hyperinflationary Presentation Currency***

Title **Input on IASB project**

Contacts **Braian Paoli** (braian.paoli@ifrs.org)
Dennis Deysel (ddeysel@ifrs.org)

Purpose and next steps

Purpose of the discussion

To seek input from members of the IFRS Interpretations Committee (Committee) on a possible way forward to respond to some of the feedback on the proposed translation method in the Exposure Draft *Translation to a Hyperinflationary Presentation Currency* (Exposure Draft).

Next steps

Your input will inform our analysis and recommendations that we will put forward to the International Accounting Standards Board (IASB) when it deliberates feedback and decides on the project's next steps.

Structure

This paper includes:

(a) background information;

(b) feedback;

(c) possible way forward; and

(d) question to the Committee.

Appendix A illustrates the possible way forward using a simplified example.

Appendix B summarises other feedback on the proposed translation method for context.

IFRS Accounting

Background

Overview of proposals

The IASB proposed that when an entity's presentation currency is the currency of a hyperinflationary economy, but the entity's (or its foreign operation's) functional currency is the currency of a non-hyperinflationary economy (emphasis added):

'…the entity translates its financial statements (or the results and financial position of a foreign operation), including comparatives, **at the closing rate** at the date of the most recent statement of financial position.'

(proposed translation method)

Additionally, the IASB proposed targeted new disclosures that would accompany the proposed translation method.

Other considerations

The Exposure Draft arose from a question submitted to the Committee. The Committee discussed and recommended the proposed translation method. In the Committee's view, the proposed translation method would:

(a) improve the usefulness of the resulting information in a simple and cost-effective manner; and

(b) remove existing diversity.

The IASB agreed with the Committee's recommendation and proposed to amend IAS 21.

However, the IASB noted that if feedback identifies significant matters not considered when developing the proposals—resulting in the need to invest substantial additional resources to complete this project—the IASB is likely to reconsider the project's priority.

Feedback

Summary of feedback

Many respondents agree with the proposed translation method with no concerns. Almost all respondents agree with the proposed translation method if translating an entity's own financial statements.

Respondents raise some concerns about the proposed translation method in the context of translating the results and financial position of a foreign operation. The most common concern is about reconsolidation of comparative information for foreign operations (see slides 9–10).[1]

Our discussion today focusses on this concern and a possible way to address this concern. Appendix B summarises other feedback on the proposed translation method and has been provided for information purposes only.

Respondents also provide feedback on other aspects of the proposed amendments (eg proposed disclosure requirements, proposed transition requirements). However, those topics are not the subject of this discussion, and consequently this paper does not include that feedback.

1. We refer to this concern as a concern about 'reconsolidating a foreign operation's comparatives' through the rest of this paper.

Reconsolidating a foreign operation’s comparatives (1/2)

Some respondents say applying the proposed translation method will result in preparers needing to perform an extra step to prepare the consolidated comparative information.

Applying IAS 29, an entity that has a functional currency of a hyperinflationary economy restates its comparative information applying a price index. We understand that, in practice, entities generally apply the price index to all comparative amounts in the financial statements (including results and financial position of a foreign operation).

Applying the proposed translation method, an entity would:

a) apply the closing rate to the comparative results and financial position of any foreign operation with a non-hyperinflationary functional currency; and

b) apply a price index to other comparative amounts.

Reconsolidating a foreign operation's comparatives (2/2)

Applying different measurement bases to different parts of the comparative information will trigger a 'reconsolidation' of the consolidated comparative amounts. Respondents say:

(a) the marginal benefits of reconsolidating comparative information of the group would not outweigh the additional costs.

(b) new elimination differences will arise when reconsolidating comparative information. The Exposure Draft does not specify how to account for these differences.

(c) the reconsolidation would affect the roll-forward of amounts in the notes and could change financial ratios within the comparative period. Investors might not understand why this happened.

Slides 25–28 (Appendix A) illustrates these concerns using a simplified example.

Possible way forward

Responding to feedback

The IASB considered the costs and benefits of requiring an entity to reconsolidate a foreign operation's comparative information when developing the Exposure Draft. Limited feedback we had at that time suggested stakeholders would accept the cost of reconsolidating a foreign operation's comparative information for the benefits of applying the proposed translation method[2].

However, in the light of the feedback on the Exposure Draft, we reconsidered whether there would be a way to address concerns about reconsolidating a foreign operation's comparative information in a cost-beneficial manner.

We think there is—slides 13–15 explain a possible way forward.

[2] See paragraph 34 of 'AP5C Possible solution' discussed in June 2023 with the Committee.

Possible way forward (1/3)

We continue to agree with the Committee and the IASB that the proposed translation method remains conceptually sound—even for translating comparative information for reasons set out in paragraph BC29 of the Basis for Conclusions on the Exposure Draft (Basis for Conclusions)

However, we think, as suggested by some respondents, that the concern about reconsolidating a foreign operation's comparatives could be addressed by providing an exception which would require an entity that has a hyperinflationary presentation currency and consolidates a foreign operation with a non-hyperinflationary functional currency to restate the comparative results and financial position of that foreign operation using an inflation index. This is consistent with the approach the entity would use for its other comparative information.

Appendix A illustrates the possible way forward using a simplified example.

Possible way forward (2/3)

We think the possible way forward would:

a) reduce costs for preparers.

b) retain most of the benefits of the proposed translation method set out in paragraph BC29 of the Basis for Conclusions (that is, it would result in entities providing more useful information than is currently the case, remove diversity in accounting, improve comparability of financial statements and remove the accumulation of exchange differences that arise when an entity translates its own financial statements)

Possible way forward (3/3)

We acknowledge the possible way forward would result in an entity using two different measurement bases to recognise the results and financial position of a foreign operation within the same financial statements. The costs of this approach are:

a) as paragraph BC29(d) of the Basis for Conclusions on the Exposure Draft notes, one of the advantages of the proposed translation method is that it would generally allow for easy translation of amounts subject to translation into the currency of a non-hyperinflationary economy. Under the exception this would no longer be as easy—but only for comparative information to which the exception would apply. In these situations, an investor would still have the necessary information from the prior year's financial statements to do the translation.

b) if comparative amounts of the foreign operation are expressed using different measurement bases, theoretically the comparative closing balance of items might not equal its current period opening balance. An adjustment would be needed to bridge the comparative and the current period in any reconciliation presented or disclosed in the financial statements. This is however not a unique situation that would be created by the possible way forward. We understand entities already experience this issue. For example, the comparative amount of a monetary asset (like cash) is expressed using the inflation index at the end of the current reporting period whereas the asset is not similarly restated in the current period.

Question to the Committee

Question to the Committee

Does the Committee have any questions or comments with regards to the possible way forward set out in slides 13–15?

Appendix A
Example illustrating possible way forward

Background information

Fact pattern

Parent entity P has a functional and presentation currency of a hyperinflationary economy (HCU). In the last month of its annual reporting period ending 31 December 20X1, P established Subsidiary S with a contribution of HCU350 (or NHCU100). S's functional currency is that of a non-hyperinflationary economy (NHCU). The applicable financial assumptions are:

	Inflation factor		**Exchange rate**
	20X1	20X2	NHCU1:HCU
31 December 20X1	2.8		3.8
31 December 20X2		1.86	7.0

This illustrative example is based on a worked example provided by one respondent in their comment letter.

Consolidation procedures

To consolidate S:

1. applying the proposed translation method to the current reporting period, P translates the results and financial position of S at the closing rate. In the consolidation workings included in this appendix, columns B–D illustrate this step. (For ease of identification, we also shade these columns in the consolidation workings).
2. applying paragraph B86 of IFRS 10 *Consolidated Financial Statements*, P combines like items of assets, liabilities, equity, income, expenses and cash flows of P with those of S and offsets (eliminate) the carrying amount of P's investment in S. In the consolidation workings included in this appendix, columns E–G illustrate this step.

Note: We illustrate possible consolidation workings for 20X1 and 20X2 on slides 22–23.[1] These remain the same irrespective of whether P applies the proposed translation method or the exception we suggest as a possible way forward. Differences in calculations arise only for the comparative information of 20X1 when preparing and presenting financial statements for 20X2.

1. We illustrate a possible method of consolidation workings. We acknowledge other methods might exist in practice.

P applies IAS 29 to determine its amounts (**column A**). We do not illustrate how P applies IAS 29. We assumed the numbers as presented in the respondent's example.

Consolidation workings for 20X1

DT / (CT)	A	B	C	D = B × C	E = A + D	F = Eliminations	G = E + F
	P	**S**	Closing Exchange rate	**S**			**Group**
20X1	HCU	NHCU		HCU	HCU	HCU	HCU
Net assets excluding investment in S	7,770	125	3.8	475	8,245		8,245
Investment in S	350				350	(350)	-
Share capital	(9,800)	(100)	3.8	(380)	(10,180)	380	(9,800)
Total comprehensive income	1,680	(25)	3.8	(95)	1,585	(30)	1,555

The elimination difference of HCU30 arises because P applies IAS 29 and does not translate its investment in S using the closing exchange rate. We understand such an elimination difference also arises applying existing requirements and is not created by the proposed amendments. The example shows one way of recognising the elimination difference.

P applies IAS 29 to determine its amounts (**column A**). We do not illustrate how P applies IAS 29. We assumed the numbers as presented in the respondent's example.

Consolidation workings for 20X2

DT / (CT)	A	B	C	D = B × C	E = A + D	F = Eliminations	G = E + F
	P	**S**	Closing exchange rate	**S**			**Group**
20X2	HCU	NHCU		HCU	HCU	HCU	HCU
Net assets excluding investment in S							
- carried over from 20X1	14,430	125	7.0	875	15,305		15,305 a
- movement for 20X2	680	300	7.0	2,100	2,780		2,780 b
Investment in S	650				650	(650)	-
Share capital	(18,200)	(100)	7.0	(700)	(18,900)	700	(18,200)
Total comprehensive income							
- carried over from 20X1	3,120	(25)	7.0	(175)	2,945	(50)	2,895
- movement for 20X2	(680)	(300)	7.0	(2,100)	(2,780)		(2,780)

Additional HCU20 (50 – 30) elimination differences arise, for one, because P applies IAS 29 and restates its investment in S from HCU350 to HCU650 using the change in a price index for 2020. As mentioned in slide 22 such an elimination difference also arises applying existing requirements and is not created by the proposed amendments. The example shows one way of recognising the elimination difference.

Applying the proposals in the ED to 20X2

P applies IAS 29 to determine its amounts (**column A**). We do not illustrate how P applies IAS 29. We assumed the numbers as presented in the respondent's example.

Consolidation workings in 20X2 for comparative information of 20X1

DT / (CT)	A	B	C	D = B × C	E = A + D	F = Eliminations	G = E + F
	P	**S**	Closing Exchange rate	**S**			**Group**
20X1	HCU	NHCU		HCU	HCU	HCU	HCU
Net assets excluding investment in S	14,430	125	7.0	875	15,305		15,305
Investment in S	650				650	(650)	-
Share capital	(18,200)	(100)	7.0	(700)	(18,900)	700	(18,200)
Total comprehensive income	3,120	(25)	7.0	(175)	2,945	(50)	2,895

Applying the proposed translation method, P applies the closing rate at the end of 20X2 to translate the comparative information of S (**columns B–D**). P's own comparative information (**column A**) is restated applying the change in the price index for 20X2. We agree with respondents that say this necessitates a 'reconsolidation' of 20X1 for P to present consolidated comparative information for 20X2 (**columns E–G**).

Extracts from consolidated financial statements for 20X2

	A = from col. G on slide 23	B = from col. G on slide 25	C = from col. G on slide 22
	20X2	**20X1**	**20X1**
Extract: statement of financial position			*As previously reported*
Total net assets	a + b 18,085	15,305	8,245
Share capital	18,200	18,200	9,800
Extract: statement of changes in equity			
Total comprehensive income			
Opening balance	(2,895)	-	-
Total comprehensive income for the year	2,780	(2,895)	(1,555)
- % of total net assets	15.37%	(18.92%)	(18.86%)

The Exposure Draft proposed the same measurement basis applied to S for both periods. Applying the proposed translation method, the current period and comparative period results and financial position of S are translated using the closing rate at the end of 20X2. This enables easy translation of both periods to a non-hyperinflationary currency.

Applying the proposed translation method, respondents say financial ratios change from those reported previously.

Applying the possible way forward to 20X2

Extracts from consolidated financial statements for 20X2

	A = from col. G on slide 23	B = C × 1.86	C = from col. G on slide 22
	20X2	**20X1**	**20X1**
Extract: statement of financial position			*As previously reported*
Total net assets	a + b 18,085	15,336	8,245
Share capital	18,200	18,229	9,800
Extract: statement of changes in equity			
Total comprehensive income			
Opening balance	(2,895)	-	-
Total comprehensive income for the year	2,780	(2,892)	(1,555)
- % of total net assets	15.37%	(18.86%)	(18.86%)

We agree with respondents that say applying the possible way forward, P applies a one-step approach to determine comparative amounts for the entire group (**column B**).

Theoretically, opening balances of the current period does not agree to comparative amounts because it is translated at the closing rate. An adjustment would be needed. This is not a unique occurrence from the possible way forward. (see slide 15)

We agree with respondents that say applying the possible way forward would maintain the comparative period ratios of the group as reported in the prior year.

Appendix B
Other feedback on the proposed translation method

IFRS Accounting

Summary of feedback

In addition to concerns about reconsolidating a foreign operation’s comparative information, respondents raised concerns about the following matters. Each of these points were raised by only one or a few respondents.

1. correlation between an exchange rate and an inflation index (slide 31);
2. conceptual concerns (slide 32);
3. situations with one-way lack of exchangeability (slides 33–34);
4. interaction with IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (slide 35);
5. where to present eliminations differences that arise, more broadly, from restatement under IAS 29 and translation under IAS 21[3].

A few respondents said there are other more pressing concerns with IAS 29 that the IASB should address before /addressing this matter.

[3] See point 4 of paragraph 19 in AP12B of the IASB’s December 2023 meeting for further information.

Correlation between an exchange rate and an inflation index

A few respondents say there might be little correlation between changes in exchange rates and inflation indexes, particularly if a jurisdiction restricts or controls economic metrics. They, therefore, question the usefulness of the information resulting from the proposed translation method.

Most of these respondents prefer a translation method such as the one described in the paragraph BC3(b) of the Basis for Conclusions as 'Alternative II'. (Applying Alternative II an entity first translates in accordance with IAS 21 and then restates current period income and expenses and comparative amounts using the change in the general price index.)

These respondents also said requiring entities already applying Alternative II to change to the proposed amendments would result in those entities providing what they view as 'less useful information'.

Conceptual concerns

One respondent says it would be inappropriate to express amounts of a foreign operation in a current measuring unit if that foreign operation's functional currency is the currency of a non-hyperinflationary economy.

If an entity translates its own financial statements, this respondent does not disagree that applying the existing requirements in IAS 21 might not result in useful information. However, the respondent says this concern—for example that irreversible cumulative exchange differences arise for an entity translating its own financial statements—is a broader concern than just for the entities to which the proposed amendments would apply.

Situations with one-way exchangeability (1/2)

One respondent says:

‘We observe that the combined result of applying [Lack of Exchangeability (Amendments to IAS 21)] (the 2023 Amendments) and the proposals in the [Exposure Draft] could lead to an outcome that may be considered counterintuitive in certain situations involving a one-way lack of exchangeability…For example, an entity with a functional currency that is not hyperinflationary (Euros, EUR), has a portion of its balances and transactions in a hyperinflationary currency (Argentine Peso, ARS). Assume that EUR is exchangeable into ARS, but ARS is not exchangeable into EUR. Also assume that the entity has adopted the 2023 Amendments. If ARS is not exchangeable into EUR, the balances and transactions in ARS are translated first to EUR using an estimated spot exchange rate based on the 2023 Amendments. If the entity’s presentation currency is ARS, those balances are then translated back to ARS using the closing rate in accordance with paragraph 41A of the ED. Because ARS lacks exchangeability into EUR but not the other way around, the two-step translation of ARS balances could result in their financial statement amounts presented in ARS being significantly different from the actual ARS balances. We question whether such an outcome provides useful information to users of the financial statements…’

[cont. on next page]

Situations with one-way exchangeability (2/2)

‘We acknowledge that this outcome is not created by the proposals in the [Exposure Draft] and it results from applying the 2023 Amendments. However, the outcome arises in situations that are directly dealt with by this [Exposure Draft]. We note that similar outcomes might arise in other situations. For example, when an entity with a hyperinflationary functional currency presents its financial statements in a non-hyperinflationary currency in accordance with paragraph 42 of IAS 21.’

Interaction with IFRS 16

One respondent says:

‘[IFRIC 16] distinguishes between a direct and a step by-step method of consolidation:

a) It is unclear how the current drafting of the proposals interacts with the policy choice between direct and step-by-step consolidation under IFRIC 16 as the wording specifically refers to '... an entity's functional currency ...' while (sub)groups strictly do not have a single functional currency, which could prevent step-by-step consolidation applying IAS 21.

b) Under current IAS 21 and IFRIC 16, the income statement of a Greek subsidiary directly consolidated into a Canadian parent…is translated at the average exchange rate for the year from EUR to CAD, while under the step-by-step method it is translated at the average rate from EUR to TRY and then at the year-end rate from TRY to CAD. This results in different answers and is conceptually awkward.

c) The Exposure Draft does not change the currency translation requirements for direct consolidation. However, in the case of a step-by-step consolidation the Greek income statement would be translated at year-end rates from EUR to TRY and from TRY to CAD. This introduces a different inconsistency between direct and step-by-step consolidation, but it is not clear to what extent this is an improvement over the current situation.’

Follow us online

ifrs.org

@IFRSFoundation

IFRS Foundation

International Accounting Standards Board