Think Ahead ACCA

IASB/ ED/2024/4 Translation to a Hyperinflationary Presentation Currency

Proposed amendments to IAS 21

Exposure Draft issued by the IASB in July 2024

Comments from ACCA
22 October 2024

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's exposure draft (ED) for *Translation to a Hyperinflationary Presentation Currency*. Our response has been developed with the assistance of ACCA's Global Forum for Corporate Reporting.

Our general comments on the proposed amendments are as follows:

The proposed amendments would potentially improve the usefulness of financial statements presented in the currency of a hyperinflationary economy and simplify the accounting treatment for affected entities by requiring a consistent translation method to all amounts that are subject to translation, thereby removing diversity in practice and improving comparability.

However, we have reservations about duplicating the disclosure of summarised financial information of an entity's foreign operations.

Our detailed responses to the specific questions asked include suggestions for further clarifications and considerations that would improve the understandability of the amended requirements.

RESPONSES TO SPECIFIC QUESTIONS RAISED

QUESTION 1 – PROPOSED TRANSLATION METHOD

The proposed amendments to IAS 21 would require that when an entity's presentation currency is the currency of a hyperinflationary economy but the functional currency is the currency of a non-hyperinflationary economy, 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.

Paragraphs BC1–BC14 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for proposing this translation method.

Do you agree with the proposed translation method? Why or why not?

If you disagree, please explain what aspect of the proposed translation method you disagree with. What changes to the proposed translation method would you suggest instead and why?

ACCA response

We believe the proposed translation method in paragraph 41A would help improve the usefulness of financial statements presented in the currency of a hyperinflationary economy, and thus we are supportive.

This method is already set out in paragraph 42 of IAS 21. The proposal would result in an entity applying the same method to translate its results and financial position, or those of its foreign operations, into a hyperinflationary presentation currency regardless of whether the functional currency is of a hyperinflationary or non-hyperinflationary economy. This method would simplify the accounting treatment for affected entities and avoid divergent practices, which should improve the comparability of financial statements presented in the currency of a hyperinflationary economy.

We note the principles in paragraphs 2 and 7 of IAS 29 that amounts presented in the currency of a hyperinflationary economy are useful only if expressed in terms of a current measuring unit at the end of the reporting period. Although an exchange rate may not perfectly reflect the purchasing power parity of respective economies on that date, we believe the closing rate could represent a reasonable proxy for the general price index in a hyperinflationary economy.

QUESTION 2 – PROPOSED DISCLOSURE REQUIREMENTS

The proposed amendments to IAS 21 would require an entity using the proposed translation method to disclose:

a) the fact that it applies the translation method in proposed paragraph 41A (proposed paragraph 53A(a));
b) summarised financial information about its foreign operations translated applying proposed paragraph 41A (proposed paragraph 53A(b)); and
c) if the economy referred to in proposed paragraph 41A ceased to be hyperinflationary, that fact (proposed paragraph 54A).

Paragraphs BC20–BC27 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for these proposals.

Do you agree with the proposed disclosure requirements? Why or why not?

If you disagree, please explain what aspect of the proposed disclosure requirements you disagree with. What disclosure requirements would you suggest instead and why?

ACCA response

Application of translation method
We agree with requiring an entity to disclose it has applied the translation method proposed in paragraph 41A, as it is important for users to understand the entity's basis for presenting its financial statements in the currency of a hyperinflationary economy.

Summarised financial information
We have reservations about the proposed paragraph 53A(b). The paragraph, as currently drafted, creates a separate requirement to disclose summarised financial information of an entity's foreign operation presented in hyperinflationary currency.

This proposal would duplicate information already required by other IFRS Accounting Standards. As the IASB had noted in paragraph BC25, IAS 21 and other IFRS Accounting Standards already require an entity to disclose summarised financial information about a foreign operation. For example,:

- paragraph B10 of IFRS 12 requires an entity to disclose summarised financial information for subsidiaries with material non-controlling interests,
- paragraph B12 of IFRS 12 requires an entity to disclose similar information for material joint ventures and associates,
- IFRS 8 requires disclosure for a foreign operation that represents a reportable segment, and
- paragraph A20(b) of IAS 21 requires an entity to disclose summarised financial information about a foreign operation if the foreign operation's functional or presentation currency is not exchangeable into the other currency.

When another IFRS Accounting Standard requires the disclosure of summarised financial information of a foreign operation, paragraph 53A(a) already requires disclosing the fact that such information has been translated in accordance with paragraph 41A. We suggest reproducing part of paragraph BC26 in paragraph 53A, that is *'[…] an entity would not be required to duplicate information it had already provided in accordance with other requirements in IFRS Accounting Standards'*. In addition, we suggest removing the proposed paragraph 53A(b).

When an economy ceases to be hyperinflationary
We support requiring an entity to disclose its presentation currency has ceased to be the currency of a hyperinflationary economy, when that becomes a fact.

QUESTION 3 – PROPOSED DISCLOSURE REQUIREMENTS FOR SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY

The IASB proposes to require an eligible subsidiary (subsidiaries that are permitted and elect to apply IFRS 19 *Subsidiaries without Public Accountability: Disclosures*) to disclose the same information as that which would be required of other entities applying IFRS Accounting Standards (that is, the IASB proposes not to reduce the disclosure requirements for an eligible subsidiary).

Paragraph BC28 of the Basis for Conclusions on this exposure draft explains the IASB's rationale for these proposals.

Do you agree with the proposed disclosure requirements for eligible subsidiaries? Why or why not?

If you disagree, please explain what aspect of the proposed disclosure requirements you disagree with. What reduced disclosure requirements would you suggest instead and why?

ACCA response

We are supportive of not reducing the disclosure proposed in this ED for eligible subsidiaries, except for the disclosure proposed in paragraph 219A(b) of IFRS 19 which require separate disclosure of summarised financial information of foreign operations. This paragraph is similar to paragraph 53A(b) of IAS 21 and therefore, please refer to our reservations and suggestions in question 2.

QUESTION 4 – OTHER ASPECTS: TRANSITION REQUIREMENTS AND REQUIREMENTS WHEN THE ECONOMY CEASES TO BE HYPERINFLATIONARY

The IASB proposes:
a) to require an entity to apply the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
b) not to require an entity to disclose the information that would otherwise be required by paragraph 28(f) of IAS 8 or by paragraph 178(f) of IFRS 19; and
c) to permit an entity to apply the amendments earlier than the effective date.

Paragraphs BC33–BC36 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for these proposals.

If the economy referred to in proposed paragraph 41A ceases to be hyperinflationary, the proposed amendments to IAS 21 would require the entity to apply paragraph 39 of IAS 21 prospectively to amounts arising after the end of its previous reporting period – that is an entity would not restate amounts arising before the end of its previous reporting period.

Paragraphs BC16–BC19 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for these proposals.

Do you agree with the proposals? Why or why not?

If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

ACCA response

Retrospective application of proposed amendments
We support applying the proposed amendments retrospectively, without having to disclose the information required by paragraph 28(f) of IAS 8 or by paragraph 178(f) of IFRS 19. As the translation method proposed in paragraph 41A encompasses comparatives, all amounts from earlier reporting periods would be translated using the same closing rate (ie the closing rate at the date of the most recent statement of financial position), which would be available to the reporting entity. We believe users would benefit from receiving information that has been prepared using a consistent approach throughout all periods presented.

Effective date and early application of proposed amendments
We support permitting entities to apply the proposed amendments from the date the amendments were issued, and disclose that fact, to accommodate affected entities that already face challenges in translating financial information into a hyperinflationary presentation currency.

Having said that, we suggest allowing jurisdictions sufficient time to adopt the proposed amendments in their legal systems. In view of the recently issued IFRS 18, IFRS 19 and annual improvements to IFRS Accounting Standards (Volume 11), the effective date for the proposed amendments should not be earlier than 2027.

When an economy ceases to be hyperinflationary
We support requiring an entity to apply paragraph 39 of IAS 21 prospectively to amounts arising after the end of its previous reporting period, that is an entity would not restate amounts arising before the end of its previous reporting period.

Determining when the economy of an entity's presentation currency has ceased to be hyperinflationary is subjective. The proposal would result in all affected entities in the same economy to start applying paragraph 39 of IAS 21 at the same point, ie the beginning of the reporting period in which the economy ceases to be hyperinflationary. This should improve the comparability of financial statements of affected entities within the same economy.