

Comment Letter

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

20 November 2024

Dear Mr Barckow,

Re: Translation to a Hyperinflationary Presentation Currency – Proposed Amendments to IAS 21

On behalf of EFRAG, I am writing to comment on the exposure draft *Translation to a Hyperinflationary Presentation Currency – Proposed Amendments to IAS 21* issued by the IASB on 25 July 2024 (the ‘ED’).

This letter is intended to contribute to the IASB’s due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

Proposed translation method

EFRAG agrees with the proposed translation method. At the same time, EFRAG notes that the proposed amendments are intended to address, inter alia, a fact pattern whereby an entity whose presentation currency is the currency of a hyperinflationary economy that translates the results and financial position of a foreign operation whose functional currency is the currency of a non-hyperinflationary economy.

In this respect, EFRAG recommends the IASB consider whether a reference to a ‘foreign operation’ in addition to an ‘entity’ in the proposed paragraphs 41A and 42 could further clarify the proposals.

EFRAG also suggests the IASB consider introducing as part of the proposed amendments wording as in paragraph 51 of IAS 21 (‘In paragraphs 53 and 55-57 references to “functional currency” apply, in the case of a group, to the functional currency of the parent’) in the ‘Translation to the

presentation currency' section of IAS 21. This could further clarify the notion of 'functional currency'.

Moreover, EFRAG recommends the IASB investigate a solution, in the future, about the fact pattern whereby an entity whose functional and presentation currencies are both the currency of a hyperinflationary economy would be required to translate the results and financial position of its foreign operation applying the proposed translation method.

Proposed disclosure requirements

EFRAG agrees with the proposed disclosure requirements. In addition, EFRAG proposes to include an explicit disclosure requirement whereby an entity is required to disclose that its presentation currency has become the currency of a hyperinflationary economy, as is currently proposed for when an entity's presentation currency has ceased to be the currency of a hyperinflationary economy.

Furthermore, EFRAG notes that while the proposed paragraph 53A(b) requires the disclosure of summarised financial information about an entity's foreign operations, for which the results and financial position have been translated in accordance with paragraph 41A, paragraphs 41A and 42 refer only to an entity whose presentation currency is the currency of a hyperinflationary economy but whose functional currency is the currency of a non-hyperinflationary economy. As such, EFRAG's recommendation for an explicit reference to a 'foreign operation' besides one to an 'entity' could enhance the clarity of the proposed disclosures as well.

EFRAG also recommends the IASB clarify what summarised financial information should be disclosed with respect to entities' foreign operations, as proposed in paragraph 53A(b).

Proposed disclosure requirements for subsidiaries without public accountability

EFRAG agrees with the proposal to require a subsidiary applying IFRS 19 to disclose the same information as that which would be required of other entities applying IFRS Accounting Standards.

Other aspects: Transition requirements and requirements when the economy ceases to be hyperinflationary

EFRAG agrees with the proposed transition requirements and the proposed requirements when the economy ceases to be hyperinflationary. EFRAG considers that the latter will avoid undue costs and contribute to the comparability and understandability of entities' financial statements.

Lastly, EFRAG considers that the proposal mentioned above for a disclosure requirement when an entity's presentation currency has become that of a hyperinflationary economy could be part of the transition requirements of the amendments.

*IASB ED Translation to a Hyperinflationary Presentation Currency – Proposed Amendments to
IAS 21*

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Didrik Thrane-Nielsen or me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Wolf Klinz', written in a cursive style.

Wolf Klinz

President of the EFRAG FRB

Appendix - EFRAG's responses to the questions raised in the ED

Question 1—Proposed translation method

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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?

EFRAG's response

- 1 EFRAG agrees with the proposed translation method and with the rationale for the amendments provided in the ED's Basis for Conclusions.
- 2 EFRAG notes that the proposed amendments are intended to address, inter alia, a fact pattern whereby an entity whose presentation currency is the currency of a hyperinflationary economy translates the results and financial position of a foreign operation whose functional currency is the currency of a non-hyperinflationary economy. As such, EFRAG recommends that the IASB consider whether a reference to a 'foreign operation' in addition to an 'entity' in the proposed paragraphs 41A and 42 would further clarify the proposals.
- 3 To further clarify the notion of 'functional currency', EFRAG also suggests the IASB consider introducing, as part of the proposed amendments, wording as in paragraph 51 of IAS 21 ('In paragraphs 53 and 55-57 references to "functional currency" apply, in the case of a group, to the functional currency of the parent') to the 'Translation to the presentation currency' section in addition to the 'Disclosures' section.
- 4 Moreover, EFRAG echoes stakeholders' views referred to in paragraph 31 of the ED's Basis for Conclusions on the practical challenges for an entity whose functional and presentation currencies are both the currency of a hyperinflationary economy, which would be required

to translate the results and financial position of its foreign operation applying the proposed translation method. EFRAG acknowledges that the challenges are not created by the proposed amendments but recommends the IASB investigate a solution in the future.

Question 2—Proposed disclosure requirements

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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?

EFRAG’s response

- 5 EFRAG agrees with the proposed disclosure requirements and the rationale provided in the ED’s Basis for Conclusions. However, EFRAG considers that while there is a requirement for an entity to disclose that its presentation currency has ceased to be the currency of a hyperinflationary economy, there is no corresponding requirement when the presentation currency becomes that of a hyperinflationary economy.
- 6 EFRAG acknowledges that disclosing the fact that all amounts in an entity’s financial statements or in the results and financial position of its foreign operations have been translated at the closing rate at the date of the most recent statement of financial position when the entity applies paragraph 41A of IAS 21 implies that its presentation currency is the currency of a hyperinflationary economy but that its functional currency is the currency of a non-hyperinflationary economy.

- 7 However, as the requirement to disclose that an entity’s presentation currency has ceased to be the currency of a hyperinflationary economy is explicit, EFRAG proposes to include another explicit disclosure requirement whereby an entity’s presentation currency has become the currency of a hyperinflationary economy in the first year of applying paragraph 41A. This would enhance the symmetry of the proposed disclosures.
- 8 In addition, EFRAG notes that while the proposed paragraph 53A(b) requires the disclosure of summarised financial information about an entity’s foreign operations, where the results and financial position are translated in accordance with paragraph 41A, paragraphs 41A and 42 refer only to an entity whose presentation currency is the currency of a hyperinflationary economy but whose functional currency is the currency of a non-hyperinflationary economy. As such, they do not address the second fact pattern catered for in the proposals (i.e. an entity whose presentation currency is the currency of a hyperinflationary economy, which translates the results and financial position of a foreign operation and whose functional currency is the currency of a non-hyperinflationary economy).
- 9 EFRAG acknowledges that paragraph 44 of IAS 21 states that ‘in addition... paragraphs 38-43... apply when the results and financial position of a foreign operation are translated into a presentation currency’, thereby implicitly linking the requirements of paragraphs 41A and 53A(b).
- 10 However, as this paragraph is not part of the proposed amendments, EFRAG proposes that the IASB consider introducing, as noted in our response to Question 1, an explicit reference to the above fact pattern by referring to a ‘foreign operation’ as well as to an ‘entity’ in paragraphs 41A and 42. This could enhance the clarity of the proposals.
- 11 Lastly, EFRAG recommends the IASB to specify what summarised information should be disclosed as per paragraph 53A(b), especially given that IAS 21 and other IFRS Accounting Standards already do so (e.g., paragraph B10(b) of IFRS 12).

Question 3 – Proposed disclosure requirements for subsidiaries without public accountability

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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?

EFRAG’s response

- 12 EFRAG agrees with the proposal to require a subsidiary applying IFRS 19 to disclose the same information as that which would be required of other entities applying IFRS Accounting Standards, according to the rationale provided in the ED’s Basis for Conclusions (i.e. they provide information about the subsidiary’s accounting policies, short-term cash flows, commitments and obligations, and its solvency and liquidity).
- 13 It is noted that a few stakeholders considered that the above requirements could be removed for entities applying IFRS 19 to further reduce their disclosure burden. However, EFRAG is of the view that the cost of disclosing whether an entity applies the proposed translation method or whether its presentation currency has ceased being hyperinflationary is low. Moreover, EFRAG concurs with the ED’s Basis for Conclusions that the disclosure of summarised financial information about its foreign operations will also provide useful information in relation to the composition of amounts presented in the eligible subsidiary’s financial statements.
- 14 At the same time, EFRAG considers that a specific requirement to disclose when an entity’s presentation currency is the currency of a hyperinflationary economy, as proposed in EFRAG’s response to Question 2, should also be applicable for subsidiaries applying IFRS 19.

Question 4 – Other aspects: Transition requirements and requirements when the economy ceases to be hyperinflationary

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?

EFRAG’s response

- 15 EFRAG agrees with the proposed transition requirements and the proposed requirements for when the economy ceases to be hyperinflationary as well as with the corresponding rationale provided in the ED’s Basis for Conclusions.
- 16 With respect to the requirements for when an economy ceases to be hyperinflationary, EFRAG supports in particular the prospective application of paragraph 39 of IAS 21 to avoid undue costs and to ensure consistency between the requirements in IAS 29 and the proposed amendments to IAS 21, as underscored in the ED’s Basis for Conclusions.
- 17 In addition, according to IAS 21 the determination whether hyperinflation exists is a matter of judgement. As such, even if an entity judges that its presentation currency ceases to be the currency of a hyperinflationary economy within a reporting period, EFRAG considers that this economy may still face severe inflationary pressures hindering the comparability of amounts even within the same reporting period. Therefore, applying paragraph 39 to translate amounts arising only after the end of the reporting period (i.e. in which the

economy ceased to be hyperinflationary) will contribute to the comparability and understandability of entities' financial statements.

- 18 Lastly, EFRAG considers that a requirement for an entity to disclose that its presentation currency is the currency of a hyperinflationary economy for the first year of applying paragraph 41A, as suggested in our response to Question 2, could be added to the transition requirements of the proposed amendments.