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

Cover Note

Objective

- 1 The objective of the session is to discuss and agree to recommend to the EFRAG FRB a final comment letter on the IASB's [Exposure Draft Translation to a Hyperinflationary Presentation Currency – Proposed Amendments to IAS 21](#) issued by the IASB on 25 July 2024 (the 'ED').

Background of the IASB project

- 2 The IFRS Interpretations Committee (IFRIC) received a submission ([AP2](#) June 2022 IFRIC meeting) about the accounting applied by a parent, whose functional currency is the currency of a hyperinflationary economy, when it consolidates a subsidiary whose functional currency is the currency of a non-hyperinflationary economy. In the fact pattern described in the submission, the parent entity applies paragraphs 39–41 of IAS 21 to translate the results and financial position of the non-hyperinflationary subsidiary into its presentation currency.
- 3 The submission asked whether, in preparing its consolidated financial statements, the parent applies IAS 29 to restate the current year and comparative amounts presented for its non-hyperinflationary subsidiary. If the parent were to restate the current year and comparative amounts, it would express those amounts in terms of the measuring unit current at the end of the reporting period (the reporting date).
- 4 IFRIC concluded that, applying the requirements in IAS 21 and IAS 29 to the submitted fact pattern, the parent could restate or not restate the subsidiary's results and financial position in terms of the measuring unit current at the end of the reporting period.
- 5 Additional outreach was then carried out ([AP5A](#) June 2023 IFRIC meeting), through which the issue was identified as prevalent, and diversity in the accounting treatment was

observed. IFRIC decided to then refer the matter to the IASB by recommending the IASB develop a narrow-scope amendment that addresses the fact pattern described in the request and a related matter of an entity whose functional currency is the currency of a non-hyperinflationary economy but presents its financial statements in the currency of a hyperinflationary economy.

- 6 In its [December 2023](#) meeting, the IASB decided to add a maintenance project for developing narrow-scope amendments to IAS 21 to its work plan. The amendments would specify how to translate the results and financial position of an entity whose functional currency is non-hyperinflationary into a hyperinflationary presentation currency.
- 7 The IASB also tentatively decided to propose amending IAS 21 to require an entity to translate all amounts (assets, liabilities, equity items, income and expenses, including comparative amounts) at the closing rate at the date of the most recent statement of financial position if that entity:
 - (a) Has a non-hyperinflationary functional currency and presents financial statements in a hyperinflationary presentation currency; or
 - (b) Translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency.

Background of the EFRAG discussions

- 8 EFRAG discussed the proposed amendments with various EFRAG working groups (i.e., EFRAG FIWG, User Panel, Academic Panel, IAWG). Members of the EFRAG working groups overall agreed with the tentative decisions taken, noting that they represent an improvement. However, they highlighted that the amendments would not address the broader issues arising from the use of a hyperinflationary presentation currency.
- 9 The EFRAG FR TEG recommended EFRAG's draft comment letter, in its 13 September meeting, for approval by the EFRAG FRB. The EFRAG FRB approved the letter via written procedure and EFRAG's [draft comment letter](#) was published on 26 September.
- 10 The deadline to provide comments was 28 October 2024. We highlight that limited feedback was received by stakeholders, and only two formal letters were addressed to EFRAG. Based on this very limited feedback, the final comment letter reflects that:
 - (a) EFRAG's recommendation for a reference to a 'foreign operation' in addition to an 'entity' in the proposed paragraph 41A to further clarify the proposals could be extended to proposed paragraph 42 as well;

- (b) More clarity is needed on what summarised financial information about an entity's foreign operations should be disclosed, as per the proposed paragraph 53A(b) of the ED; and
- (c) It was suggested to remove the disclosure requirements for entities applying IFRS 19 (as seen in Question 3 of the ED).

Next steps

- 11 Following the recommendation of the EFRAG FR TEG, the EFRAG FRB to approve the final comment letter via written procedure.

Agenda Papers

- 12 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 02-02 – *Translation to a Hyperinflationary Presentation Currency – Proposed Amendments to IAS 21 – Final Comment Letter*; and
 - (b) Agenda paper 02-03 – *Translation to a Hyperinflationary Presentation Currency – Final Comment Letter – Track changes version*.