~~Draft~~ Comment Letter

~~You can submit your comments on EFRAG's draft comment letter by using the 'Express your views' page on EFRAG's website, then open the relevant news item and click on the 'Submit your comments' link at the end of the news item.~~

~~Comments should be submitted by 28 October 2024.~~

International Accounting Standards Board

7 Westferry Circus, Canary Wharf

London E14 4HD

United Kingdom

[XX ~~Month~~ 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 a '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 that an entity shall 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, which the results and financial position have been translated in accordance with paragraph 41A, paragraphs 41A and 42 refer~~s~~ only to an entity whose presentation currency is the currency of a hyperinflationary economy, but its functional currency is the currency of a non-hyperinflationary economy. As such, EFRAG's recommendation for an explicit reference to a 'foreign operation' besides that 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.

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,

Wolf Klinz

President of the EFRAG FRB

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

Question 1—Proposed translation method

~~*Notes to constituents – Summary of proposals in the ED*~~

~~1 *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.*~~

~~2 *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).*~~

~~3 *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.*~~

~~4 *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.*~~

~~5 *The proposed amendments in this exposure draft would require an affected entity to translate all amounts subject to translation, including comparative amounts, using the closing rate at the date of the most recent statement of financial position (proposed translation method). This translation method is already set out in paragraph 42 of IAS 21 and is applied by entities with a functional currency that is the currency of a hyperinflationary economy. The IASB does not intend to change the situations to which paragraph 42 of IAS 21 applies but is proposing to amend the beginning of that paragraph*~~

~~*for consistency with proposed paragraph 41A and the proposed amendments to paragraph 39.* (BC9)~~

~~6 *Some stakeholders said the proposals could present some practical challenges if 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. In those circumstances, the entity would apply IAS 29 and restate its income and expenses and comparative amounts using the general price index. The entity would then use the closing rate at the date of the most recent statement of financial position to translate the income and expenses and comparative amounts of its foreign operation. In that situation, differences might arise between the entity's own amounts and the foreign operation's amounts for current and prior inter-company transactions. The IASB acknowledged the potential challenges in accounting for such differences but noted that the proposed amendments build on a translation method already set out in IAS 21. Therefore, any challenges related to applying the proposed translation method already exist in IAS 21; they are not created by the proposed amendments.* (BC31)~~

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?

EFRAG's response

~~7~~1 EFRAG agrees with the proposed translation method and with the rationale for the amendments provided in the ED's Basis for Conclusions.

~~8~~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 that 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 the IASB to 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.

~~9~~3 EFRAG also suggests, to further clarify the notion of a 'functional currency', the IASB may 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, in addition to the 'Disclosures' section.

~~10~~4 Moreover, EFRAG echoes stakeholders' views referred to in paragraph 31 of the ED's Basis for Conclusions, on the practical challenges if 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. 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

~~*Notes to constituents – Summary of proposals in the ED*~~

~~11 *The IASB proposes to require an entity to disclose the fact that (i) it is applying the proposed amendments; and (ii) it has stopped applying the proposed amendments when the economy whose currency is its presentation currency ceases to be hyperinflationary. These proposed requirements are similar to disclosure requirements in IAS 21 and IAS 29 that address similar situations.* (BC21)~~

~~12 *The IASB considered separately situations in which an entity would apply the proposed translation method to its financial statements and those in which it would apply the proposed translation method to the results and financial position of a foreign operation.* (BC23)~~

~~13 *For situations in which an entity would apply the proposed amendments to the results and financial position of a foreign operation, summarised financial information about the entity's foreign operations would allow investors to translate those amounts into the currency of a non-hyperinflationary economy. Paragraph A20(b) of IAS 21 already 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 and other IFRS Accounting Standards also include disclosure requirements that would result in an investor receiving summarised financial information about a foreign operation (e.g., paragraphs B10 and B12 of IFRS 12).*~~

~~14 *The IASB proposes to require an entity to disclose summarised financial information about its foreign operations to which it has applied the proposed translation method. However, an entity would not be required to duplicate information it had already provided in accordance with other requirements in IFRS Accounting Standards.* (BC26)~~

~~15 *The IASB also observed that summarised financial information about an entity's foreign operations would provide useful information about the composition of the amounts presented in an entity's financial statements. In this situation, any of the entity's foreign operations to which it had applied the proposed translation method would have a functional currency that is the currency of a non-hyperinflationary economy and a presentation currency that is a currency of a hyperinflationary economy. Therefore, these foreign operations would be likely to have different characteristics and a different risk profile from the entity's other operations. This information could help investors better understand the foreign operation's cash flows and provide useful information about the entity's commitments and obligations, and its solvency and liquidity.* (BC27)~~

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?

EFRAG's response

~~16~~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.

~~17~~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 its functional currency is the currency of a non-hyperinflationary economy.

~~18~~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 that 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.

~~19~~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, which the results and financial position have been translated in accordance with paragraph 41A, paragraphs 41A and 42 refer~~s~~ only to an entity whose presentation currency is the currency of a hyperinflationary economy, but its functional currency is the currency of a non-hyperinflationary economy. As such, ~~it~~ they ~~does~~ do not address the second fact pattern catered for in the proposals (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).

~~20~~9 EFRAG acknowledges that paragraph 44 of IAS 21 states 'that in addition to 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 the IASB consider, as noted in our response to Question 1, to introduce 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.

~~21~~11 Lastly, being cognisant of IAS 21 and other IFRS Accounting Standards already requiring summarised financial information for foreign operations, EFRAG recommends the IASB to clarify what summarised information should be disclosed as per paragraph 53A(b).

~~**Question to Constituents**~~
~~22 Do you propose any additional or different disclosure requirements for entities applying the proposed amendments? Why or why not?~~

Question 3— Proposed disclosure requirements for subsidiaries without public accountability

~~*Notes to constituents – Summary of proposals in the ED*~~

~~23 *The IASB decided to propose that an eligible subsidiary applying IFRS 19 Subsidiaries without Public Accountability: Disclosures be required to disclose the same information that, under the proposals, other entities applying IFRS Accounting Standards would be required to disclose.*~~

~~24 *More specifically, a subsidiary applying IFRS 19 is required to disclose that all amounts in its 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 subsidiary applies paragraph 41A of IAS 21. In addition, the subsidiary is required to disclose that its presentation currency has ceased to be the currency of a hyperinflationary economy, when the subsidiary applies paragraph 41B of IAS 21. The IASB considers that both disclosure requirements provide useful information about an eligible subsidiary's accounting policies and are factual statements for which the cost of disclosing the information would be low.*~~

~~25 *Moreover, a subsidiary applying IFRS 19 is also required to disclose summarised financial information about the results and financial position of the subsidiary's foreign operations. The IASB considers that this requirement provides useful information in relation to the composition of amounts presented in the eligible subsidiary's financial statements,*~~

~~*and about the subsidiary's short-term cash flows, commitments and obligations, and its solvency and liquidity.* (BC28)~~

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?

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).

~~26~~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.

~~27~~14 ~~However~~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 to Constituents**~~
~~28 If you suggest additional or different disclosure requirements for entities applying the proposed amendments (as addressed in Question 2), which of those would you consider relevant for subsidiaries without public accountability? Why or why not?~~

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

~~*Notes to constituents – Summary of proposals in the ED*~~

~~29 *The IASB proposes to require an entity to apply the amendments retrospectively in accordance with IAS 8. In the IASB's view, the benefits of requiring an entity to do so would outweigh the costs because:*~~

~~*(a) the consistent application of the amendments throughout all periods presented would enhance the usefulness of information for investors; and*~~

~~*(b) the inputs needed to apply the amendments retrospectively are expected to be readily available to entities at minimal or no additional cost (those inputs are the applicable financial information, such as comparative amounts in the currency of a non-hyperinflationary economy and the closing rate at the date of the most recent statement of financial position).*~~ (BC34)

~~30 *The IASB decided not to require an entity to disclose the information that would otherwise be required by applying paragraph 28(f) of IAS 8 when the entity first applies the amendments. Similarly, an eligible subsidiary that applies IFRS 19 would not be required to disclose the information that would otherwise be required by paragraph 178(f) of IFRS 19. Without such an exemption, an entity would be required to maintain two translation methods solely to meet this disclosure requirement. The IASB concluded that the costs of requiring an entity to provide this disclosure would outweigh the expected benefits.*~~ (BC36)

~~31 *The IASB considered whether specific requirements would be necessary to address situations in which the economy whose currency is an entity's presentation currency becomes or ceases to be hyperinflationary and the entity's functional currency continues to be the currency of a non-hyperinflationary economy.*~~ (BC16)

~~32 *If that economy becomes hyperinflationary, the entity would be in the scope of the proposed amendments. However, if the economy ceases to be hyperinflationary, the entity would be required to no longer apply the proposed amendments and instead to apply paragraph 39 of IAS 21. Paragraph 39(b), for example, requires an entity to translate income and expenses at the 'exchange rates at the dates of the transactions'. In accordance with that paragraph, an entity would be required to determine exchange rates at the dates of transactions for which it had previously—while applying the proposed translation method—used only the closing rates. The IASB considered that doing so might be impracticable or unduly onerous.* (BC18).~~

~~33~~ ~~*The IASB proposes to require an entity to apply paragraph 39 prospectively to amounts arising after the end of the previous reporting period. Under these proposals, an entity would not retranslate amounts arising before the end of the previous reporting period. This proposed requirement is consistent with paragraph 38 of IAS 29, which requires an entity to treat amounts expressed in terms of the current measuring unit at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements when an economy ceases to be hyperinflationary.*~~ ~~(BC19)~~

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

~~34~~15 EFRAG agrees with the proposed transition requirements and the proposed requirements when the economy ceases to be hyperinflationary, and with the rationale provided for both in the ED's Basis for Conclusions.

~~35~~16 With respect to the requirements 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.

~~36~~17 Moreover, EFRAG considers that as an economy that ceases to be hyperinflationary may still face severe inflationary pressures, the translation of 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.

~~37~~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.

~~**Question to Constituents**~~

~~38 Do you agree with EFRAG's positions on the proposed amendments to IAS 21 as expressed in this draft comment letter?~~