

International Accounting Standards Board (IASB)
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London
E14 4HD

21 November 2024

Dear Sir

Exposure Draft ED/2024/4: Translation to a Hyperinflationary Presentation Currency

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network¹, this letter summarises views of member firms that provided comments on the ED.

We support the objective of the IASB to propose a simple and cost-effective solution to the issue of translation of amounts from a functional currency that is the currency of a non-hyperinflationary economy to a presentation currency that is the currency of a hyperinflationary economy.

However, we have some concerns about the proposed translation method as below:

- Often, little correlation is observed in practice between changes in general price indices and changes in exchange rates over the short term.
- The proposed approach would involve applying the consolidation procedures again for comparative periods, which might involve significant costs for entities.
- Applying the proposed approach, a difference would arise on elimination of intercompany transactions and balances as the results and financial position of the parent and the foreign operation are translated using two different approaches.

The above challenges arise primarily in case of translation of results and financial position of a foreign operation. We believe that the proposed approach would work well for translation of an entity's financial statements from the functional currency of a non-hyperinflationary economy to a presentation currency of a hyperinflationary economy. However, we believe that the proposed approach would be costly to apply and may not provide useful information in case of translation of a foreign operation with a functional currency of a non-hyperinflationary economy to a

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presentation currency of a hyperinflationary economy for purposes of consolidating the foreign operation.

Therefore, we recommend the IASB to reconsider the proposed translation method. We have suggested alternative approaches in the attached Appendix.

We also have several concerns related to the proposed disclosure requirement related to summarised financial information and a suggestion for the proposed transition requirements.

Our detailed responses to the questions in the ED, along with the reasons for our concerns, are set out in the attached Appendix. The Appendix only includes responses to questions where we have concerns or suggestions.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

Appendix

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?

We have concerns about the proposed translation method, which are as follows:

- (a) In practice, often little correlation is observed between changes in general price indices and changes in exchange rates over the short term. We believe that the use of closing exchange rates as an approximation for changes in general price index may not necessarily provide useful information. Currently, paragraph 17 of IAS 29 *Financial Reporting in Hyperinflationary Economies* allows entities to estimate a general price index using movements in the exchange rate between the functional currency and a relatively stable foreign currency. But this requirement applies only when a general price index is not available. In cases where a general price index is available, we believe that the use of a general price index should be prioritised over the use of exchange rates as a proxy.
- (b) The proposed approach would involve applying the consolidation procedures again for comparative periods, which might involve significant costs for the entities. This is especially the case for entities presenting quarterly financial statements, entities presenting more than one year of comparative financial information and entities required to present summarised financial information for multiple years.
- (c) Under the proposed approach, the foreign operation will translate all the amounts at the closing rate, while the parent and other foreign operations with hyperinflationary functional currencies will apply IAS 29. As a result, a difference will arise on elimination of intra-group transactions and balances. The proposed amendments do not address the accounting for this difference. This may lead to a diversity in practice.

We understand the IASB's intention to propose a solution that would improve the usefulness of the information presented in a simple and cost-effective manner. However, due to the concerns noted above, we believe that the proposed solution may diminish the usefulness of the information presented and that the costs of applying the proposed solution may outweigh the benefits.

Therefore, we suggest that the IASB reconsider the proposed approach.

We suggest the following alternatives that the IASB might consider:

1. An approach based on Alternative II in BC3(b):

This approach would apply to both translation of an entity's results and financial position and those of a foreign operation from a functional currency of a non-hyperinflationary economy to a presentation currency of a hyperinflationary economy. The entity or the foreign operation would be required to restate the current period income and expense and the comparative information using a general price index.

We note that one of the reasons for the IASB rejecting this approach was that it would require either an expansion of the scope of IAS 29 or an inclusion of an arbitrary rule-based amendment to IAS 29 (BC13(a)). However, we believe that this requirement can be introduced by amending IAS 21 *The Effects of Changes in Foreign Exchange Rates* to require restatement of comparatives and income and expenses using a general price index when the entity or the foreign operation is translating the amounts from a functional currency of a non-hyperinflationary economy to a presentation currency of a hyperinflationary economy.

2. A dual approach:

The concerns noted in points (b) and (c) above apply to translation of a foreign operation for purposes of consolidation. The concern noted in point (a) applies to both translation of an entity's financial statements and translation of a foreign operation for consolidation.

As a practical solution, we suggest that the IASB consider the proposed solution for translation of an entity's financial statements and the approach based on Alternative II in BD3(b) for translation of a foreign operation for consolidation. We acknowledge that this would result in applying two different translation methods for similar situation. However, we believe that in the present case, such difference would be justifiable as an immediate and pragmatic solution.

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?

We agree with the proposed disclosure requirements in paragraphs 53A(a) and 54A.

We have concerns related to the proposed disclosure requirement related to summarised financial information in paragraph 54A(b):

- (a) It appears that the proposed requirement is to disclose summarised financial information on an aggregate basis for all foreign operations for which the results and financial position have been translated in accordance with proposed paragraph 41A. In this case, if an investor were to translate the amounts to a third currency of a non-hyperinflationary economy, the results might be misleading. For example, consider an Argentine parent having a functional and presentation currency of Argentine Peso that consolidates two subsidiaries having functional currencies of US\$ and GBP. The results and financial position of the subsidiaries are translated to Argentine Peso at the closing rate as per the proposed approach and the summarised financial position is disclosed. Subsequently, a user of the financial statements translates the summarised financial position into Euro using the closing rate between Argentine Peso and Euro. The resulting amounts may be significantly different from the amounts that would be arrived at by translating the US\$ or GBP amounts to Euro at the closing rate.

Therefore, we suggest that the IASB consider requiring entities to disclose the summarised information by functional currency. We acknowledge that this requirement may be onerous for the preparers of financial statements. Therefore, we further recommend that the IASB consider requiring this disclosure only for material foreign operations.

- (b) The proposed requirement does not explain the nature of information to be included in the summarised financial information. We recommend that the IASB consider providing this clarification similar to that in paragraphs B10 and B12 of IFRS 12 *Disclosure of Interests in Other Entities*.

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?

Our comments for Question 3 are similar to those for 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?

We generally agree with the proposed transition requirements and the requirements when the economy ceases to be hyperinflationary.

We suggest that the IASB consider providing a transition relief from retrospective application of the requirements for the disaggregation of equity balances, allowing entities to maintain the

previous balances in presentation currency as of the date of initial application and adjusting the difference in retained earnings at that date. This suggestion is irrespective of the translation method finalised. We believe that it may be onerous for entities to track share capital or equity reserves in functional currency (if all amounts are translated at the closing rate) or to track the specific dates of recognition of every item (if Alternative II is applied).