Ernst & Young Global Limited
1 More London Place
London
SE1 2AF

Tel: +44 20 7951 2000
Fax: +44 20 7951 1345
ey.com

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

01 November 2024

Dear Board members,

Invitation to comment – Exposure Draft IASB/ED/2024/4 *Translation to a Hyperinflationary Presentation Currency - Proposed amendments to IAS 21*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the International Accounting Standards Board's (IASB or the Board) Exposure Draft IASB/ED/2024/4 *Translation to a Hyperinflationary Presentation Currency - Proposed amendments to IAS 21* (the ED).

We welcome the Board's efforts to reduce diversity in practice. However, we have concerns around the cost benefit trade-off of the proposals as discussed in our detailed comments below.

The proposals will apply to different types of entities (and groups). Therefore, we refer to the following scenarios throughout this comment letter:

Scenario 1 (similar to the 'related situation', as per paragraph BC5):
An Oil and Gas group based in Argentina that is entirely United States Dollar (USD) (non-hyperinflationary) functional with a parent entity that is required to prepare Argentine Peso (ARS) (hyperinflationary) denominated financial statements for regulatory filing purposes.

Scenario 2 (similar to the situation in the original IFRS Interpretations Committee submission as per paragraph BC1):
A regional banking group headed by a Turkish parent (hyperinflationary functional currency), reporting in Turkish Lira (TRY), that holds regional banking subsidiaries based in Greece (non-hyperinflationary functional currency).

Scenario 3 (referred to in our detailed comments in Appendix A)
The same as our Scenario 2, but the Turkish regional banking group is held by a Canadian ultimate parent company (non-hyperinflationary functional currency), reporting in Canadian Dollar (CAD).

Paragraph BC3 of the ED notes that preparers have come up with the following three alternatives for translating the income and expenses in these scenarios:

I. No restatement
II. Restatement of both the current and comparative period using the change in the general price index
III. Restatement of only the comparative period using the change in the general price index

In our reading, the proposals introduce a fourth alternative that is untested as it is currently not used in practice:

IV. Translating both the current and comparative period using the current period closing exchange rate

The proposals have the potential to work better for entities in our Scenario 1. However, we are concerned that for entities in our Scenario 2, the proposals introduce significant complexity, as they require a 'reconsolidation' of the comparative period opening and closing balances (paragraph BC31 to the ED). To illustrate, under Alternatives II and III above, an entity in our Scenario 2 would simply multiply all comparative amounts in the primary financial statements and the notes by the same inflation factor. These alternatives are the most commonly used in practice because of their simplicity. However, under the proposals, the comparative information relating to the non-hyperinflationary Greek subsidiary is adjusted for the change in exchange rate, while IAS 29 requires the Turkish parent's own comparatives to be adjusted for the rate of inflation in the current period.

The amounts in consolidated financial statements are comprised of parent- and subsidiary-related amounts in varying proportions. Therefore, it will be necessary to restate the parent and subsidiary amounts separately, under the proposals, and then to reperform the consolidation. This changes both the relative composition of the comparative numbers and the financial ratios based on those comparative numbers, and means, for example, that each line item in a roll forward schedule will have its own unique combined adjustment factor. This applies not only to all the amounts in the primary financial statements, but also to each and every amount throughout the notes.

A user of the financial statements will be unable to roll forward their own prior year analysis under the proposals, as the composition of the financial ratios (e.g., the relative revenue contribution by the subsidiary compared to total revenue) in the comparative period will have changed. Users will, therefore, need to 'start afresh' each year increasing the cost of their analysis.

Given the 'drift' in ratios and the relative composition of the various comparative amounts, resulting from applying different adjustment factors to restate the parent and the subsidiary amounts, the reporting produced by the proposals is not readily understood by users. In addition, preparers are burdened with the cost and complexity of having to reconsolidate comparative information every time it is reported. We are, therefore, not convinced that the benefits of this approach outweigh the costs.

Alternative approach

A possible alternative solution would be to consistently adopt a translation approach based on the current IAS 29 accounting (e.g., Alternatives II or III in paragraph BC3) in all our scenarios.

While the reporting under the IAS 29 approach has its own inherent drawbacks and limitations, the approach is well-established in practice, and users are familiar with the type of information that this approach produces. As noted earlier, the Board's proposals are as yet untested and it is unclear what the impact of the proposals (e.g., on deferred tax balances and distributable reserves) will be in the various jurisdictions.

The proposed fully retrospective application of the proposals appears to require an entity to reconstruct its foreign currency translation reserve, which could in many cases be impracticable – see our comments under Question 4.

Key responses to specific questions in the request for information are included in Appendix A.

Should you wish to discuss the contents of this letter with us, please contact Michiel van der Lof at the above address, or on +44 (0) 20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

Appendix – Detailed responses to specific questions

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 the following concerns about the cost versus benefit of applying the proposals in some situations:

- In our experience it could be quite onerous for the type of entity in our Scenario 2 above to reperform the prior period consolidation, possibly many times if the parent reports on a quarterly basis. For example, in our Scenario 2, if the TRY inflation for the year is 50% and the TRY only devalues by 30% vs the EUR then this will result in restating EUR and TRY by different factors. This also means that roll forward schedules of property, plant and equipment (PP&E) or net debt will need to be recast to reflect that difference in restatement factor. This 'recasting' will need to be repeated at every reporting date.
- In our Scenario 2, the application of different restatement factors for the TRY figures (reflecting inflation) and the EUR figures (reflecting currency movements) will mean that the relative composition of the consolidated group amounts (e.g., the parent's PP&E plus the subsidiary's PP&E) in the comparative period will change at every reporting date. This will apply to all the amounts throughout the financial statements and the notes. In addition, this difference in restatement factor will also impact the usefulness of ratios and other trend analysis (e.g., the debtors' days for the prior period will change despite there being no change in the level of debt collection). This could also impact the assessment of external covenants.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* distinguishes between a direct and a step-by-step method of consolidation:

- It is unclear how the current drafting of the proposals interacts with the policy choice between direct and step-by-step consolidation under IFRIC 16 as the wording specifically refers to '… an entity's functional currency …' while (sub)groups strictly do not have a single functional currency, which could prevent step-by-step consolidation applying IAS 21.
- Under current IAS 21 and IFRIC 16, the income statement of a Greek subsidiary directly consolidated into a Canadian parent (our Scenario 3 above) is translated at the average exchange rate for the year from EUR to CAD, while under the step-by-step method it is translated at the average rate from EUR to TRY and then at the year-end rate from TRY to CAD. This results in different answers and is conceptually awkward.
  The Exposure Draft does not change the currency translation requirements for direct consolidation. However, in the case of a step-by-step consolidation the Greek income statement would be translated at year-end rates from EUR to TRY and from TRY to CAD. This introduces a different inconsistency between direct and step-by-step consolidation, but it is not clear to what extent this is an improvement over the current situation.

We also have the following observations on the current drafting of the proposals:

- The references to "an entity's presentation currency" in IAS 21.41A (and IAS 21.39) in the ED seems to limit the scope of the proposals to entities in our Scenario 1 above. To illustrate, for the Greek subsidiary (in our Scenario 2), the "entity's presentation currency" would appear to be EUR and not the currency of a hyperinflationary economy. IAS 21.41A, as proposed in the ED, could therefore be read as not applying to such a foreign operation being consolidated into the results of the Turkish parent's consolidated accounts. Likewise, the Turkish parent reporting in TRY (in our example) is not within the scope of IAS 21.41A as both its functional and presentation currency is the currency of a hyperinflationary economy.
  Similarly, the references to "an entity's presentation currency" in IAS 21.39 and IAS 21.41A, as proposed in the ED, also seems to suggest that 'an entity' only has one presentation currency, which does not appear to be the Board's intention. Wording referring to "the chosen presentation currency" or the style of wording used in the currently effective IAS 21.39, which refers to "a different presentation currency" would be clearer.

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 the proposed disclosures would be relevant to a user's understanding of the amounts presented under the proposed translation method. *[IAS 21.53A(a), IAS 21.54A]*. And coupled with the 'summarised financial information', the proposed disclosure would also allow users to: 1) determine the extent of the operations not subject to a hyperinflationary economy; and 2) unwind the translation as part of their analysis of the reported summarised results should they wish to. *[IAS 21.53A(b)]*.

For the type of entity in our Scenario 1 above, the proposed disclosure is likely to provide useful information to users and the required information would be readily available to prepares. Similarly, the requirement in IAS 21.53A(b) to provide "summarised financial information about its foreign operations" could provide useful information to the users of the consolidated financial statements of the Turkish parent, in our Scenario 2 above, and the Canadian ultimate parent, in our Scenario 3 above.

However, we have the following observations on the proposed disclosure requirements in the ED:

- The scope of the proposed disclosure, "when an entity applies paragraph 41A", seems unintentionally narrow. To illustrate, the Turkish parent reporting in TRY (in our Scenario 2) is not within the scope of IAS 21.41A as its functional and presentation currency is the currency of hyperinflationary economy, therefore, the disclosure in IAS 21.53A would not apply to that Turkish parent. Similarly, the Canadian ultimate holding company reporting in CAD (in our

Scenario 3) has a functional and presentational currency that is non-hyperinflationary and is therefore again not in scope of IAS 21.53A. Based on our comments under Question 1, IAS 21.41A, as currently drafted, could also be read as not applying to the Greek subsidiary (in our Scenario 2). Therefore, the scope of these proposed disclosures, appears to be limited to the type of entity described in our Scenario 1, which does not appear to be the Board's intention. Wording that refers to 'when the financial statements contain amounts to which IAS 21.53A were applied' would be clearer.

- Similarly, the requirement in IAS 21.53A(b) to provide "summarised financial information about its foreign operations" would not apply to the Turkish parent, in our Scenario 2 since neither its consolidated accounts nor its parent only accounts have a non-hyperinflationary functional currency. Similarly, the Canadian ultimate holding company does not meet the requirements in IAS 21.41A and the Greek subsidiary does not have any foreign operations. It is therefore unclear which entity would be subject to these requirements as currently drafted.
- It is unclear if the requirements in IAS 21.53A(b) would apply to the type of entity described in our Scenario 1, since such an entity has subsidiaries and is in scope of IAS 21.41A, but since its subsidiaries are all based in Argentina, it's unclear if these could be seen as being 'foreign operations'.

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?

Also refer to our concerns raised under Question 2.

On the basis that the Board clarifies which entities the disclosure requirements apply to, we have the following comments:

- We agree that a subsidiary without public accountability would need to disclose the fact that all the amounts in its financial statements (or the results of its foreign operations) have been translated at the most recent closing rate for a user to understand the amounts presented. *[IFRS 19.219A(a)]*. Similarly, when the presentation currency ceases to be hyperinflationary, a subsidiary without public accountability would need to disclose this fact for users to understand the amounts presented. *[IFRS 19.220A]*.
- The summarised financial information required by the proposed IFRS 19.219A(b) would provide useful information about the entity's short-term cash flows. However, given the more limited set of likely users of such financial statements, subsidiaries without public accountability would benefit from being required to provide a less granular level of 'summarised financial information'.

Building a better working world

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 support the proposed exemption from the IAS 8.28(f) disclosures since providing this information will essentially require an entity to prepare two sets of accounts (under current practice and under the amendments) and, as noted in paragraph BC6 to the ED, the information required under the current guidance is considered less useful by users.

We also support allowing early application as this permits entities to make the changes early if this results in more useful information for their users.

We agree that restating the comparative period will improve comparability of the numbers reported for the prior period. However, it is unclear from the proposals whether the retrospective application would require an entity to restate its cumulative foreign currency translation reserve built up under the current translation requirements, since the date that foreign operation/s were acquired. Such a restatement could in some cases be impracticable, calling into question whether the costs would outweigh the benefits of retrospective application. The difficulty of reconstructing a foreign currency translation reserve fully retrospectively was acknowledged by the Board in IFRS 1.BC53 when developing the exemption in IFRS 1.D12-D13A.