22 November 2024

International Accounting Standards Board
7 West Ferry Circus
Canary Wharf
London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2024/4 – *TRANSLATION TO A HYPERINFLATIONARY PRESENTATION CURRENCY* – PROPOSED AMENDMENTS TO IAS 21

In response to your request for comments on ED/2024/4 – *Translation to a Hyperinflationary Presentation Currency* – Proposed Amendments to IAS 21, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Exposure Draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji
Chairperson: APC

Mulala Ratshitanga
Project Director: Financial Reporting

Cc: Bongeka Nodada
Executive: Corporate Reporting

GENERAL COMMENTS

We acknowledge and appreciate the International Accounting Standards Board (IASB/ Board) 's efforts to look into hyperinflation as it is a pertinent issue. However, the introduction of the Exposure Draft (ED) states that feedback should focus only on the issues raised in the ED. We are cognisant that if we identify other issues not raised in the ED, the IASB is likely to reconsider the project's priority.

We do not believe that the current standard, IAS 29 – *Financial Reporting in Hyperinflationary Economies* (IAS 29), reflects the economics which play out when a country is in a hyperinflationary environment and as a result we are of the view that IAS 29 requires a relook in its entirety rather than for the IASB to propose narrow scope amendments.

We have noted quite a large divergence on how the US GAAP treats entities which are hyperinflationary versus how IFRS treats entities which are under hyperinflationary economy. Having considered the facts from a principles' perspective, we believe that the method utilized by US GAAP economically provides a better response to address this issue than the methods which IFRS currently provides.

We recommend the IASB to consider not only revising components of the standard and addressing only those components of the standard, but that the IASB should consider the standard in totality. Currently, there are large economies that are at serious risk, and we believe that it is critical that the IASB understands that IAS 29 is not usable in its current form and that they need to prioritize to relook at it as a whole together with its interaction with IAS 21.

SPECIFIC COMMENTS

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 are of the view that the translation method proposed will reduce diversity in practice and assist with some level of comparability. The mechanics of the calculation operationally appear to be simpler however we acknowledge that there might be some practical challenges that arise in the application, particularly in group scenarios, however we believe it will simplify the process to a certain extent. In the absence of a review of IAS 29 we, therefore, are supportive of the proposed translation method put forward in the ED.

We have noted that there is an increasing overlap between IAS 29 and IAS 21 which is becoming operationally difficult, and we are concerned that there may be jurisdictions that are going to struggle to apply this proposed amendment. We are also concerned with the moving target of the comparatives and how this will be dealt with as it has already been an issue when trying to consolidate hyperinflationary subsidiaries in the past and this is going to compound the problem going forward. We propose the IASB to consider whether the IAS 29 (and possibly IAS 21) project should be dealt with as a whole.

We also have concerns from a practical point of view where the situation under consideration is not necessarily a case of translating to a presentation currency, but it is a group of companies where there is a non- hyperinflationary subsidiary. Based on the recommendations stipulated in the ED, preparers will be required to reconsolidate the opening balance for the current year, the prior year's income statement and the prior year's opening balance. This would mean that there is now a requirement to perform three consolidations for each reporting period at interim or year-end. In such an instance, consideration has to be given to accounting jurisdictions where there currently is a lack of technical skills and the quality of financial information produced in these countries is lacking, the above is significantly increasing the work required which will defeat the cost versus benefit of the proposed change.

We are aware of divergent practices in the market, however having consideration of the treatment by preparers points to the practical challenges which are often far exceeding the theoretical reality in the standard. It might come across as if the cost has not exceeded benefit in some cases, however, the investors and stakeholders might question the relevance, reliability and the usability of the information. In many of the discussions which our constituents have been part of, preparers are leaning more towards using the principles of the *Conceptual Framework for Financial Reporting* (Conceptual Framework) which provides a better reflection than IAS 21 or IAS 29 principles.

We have a question for the IASB's consideration on whether there is a single answer or a variety of answers for a variety of circumstances that should be contemplated with appropriate disclosure for the users to appreciate a particular method which has been followed under particular circumstances. The question is whether this very challenging topic is leaning towards a single solution. We have noted that as accountants, our preference leans towards a single solution as it is easy to apply and simplifies its auditability, but it is questionable whether it can be considered the practical reality. We suggest that it might be helpful to take examples of the application that were done in other markets. Such an example being the World Bank and the International Monetary Fund (IMF) where the IMF groups hyperinflationary countries into five or seven types of groups based on the information needs that they experience. We suggest that the IASB should also consider this direction as well instead of trying to solve for a single solution.

We also have another question that we believe is important and that the IASB should take into consideration and provide relevant additional guidance. In a vertical group environment where there is a non-hyperinflationary, hyperinflationary and then a non-hyperinflationary, in such an instance, there is a lot of debate about how to consolidate multiple group entities. Consideration should be given in terms of whether this would be a direct consolidation, or whether consolidation should be done through the intermediate levels. With the introduction of these changes, it is not clear what the impact would be or how this would be dealt with in a group scenario. Some of our questions include whether one would take a hyperinflationary group and turn it into a non-hyperinflationary group again and whether an entity would also need to reset/restate its comparatives.

In recent discussions held with analysts in South Africa about hyperinflation, the understanding is that they were not utilising the results from applying IAS 29 to estimate the valuation of entities in n hyperinflation environment, for example Zimbabwe, in the past. From these discussions, we have noted diversity in practice, and we acknowledge the potential problem, however we do not agree that the benefit would outweigh the significant increase in the cost of the proposed translation method.

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?

(a) We agree with the proposal, however we have concerns as to whether the proposal of requiring an entity using the proposed translation method to disclose this fact in proposed paragraph 41A (proposed paragraph 53A(a)) is helpful, as we have encountered problems with the previous translation methodologies in the standard.

(b) We do not agree with the proposal of additional disclosure, as we don't believe that this information is useful or fairly presents the results and the financial position. We don't understand the proposal to impose more disclosure, unless it is thought that there is an existing deficiency that the Board wants to address.

We also have concerns on the practicality of how the summarized financial information disclosure would be provided at different reporting periods, as it appears onerous and similarly, if updated, IAS 21 would seem to be the only standard that requires this level of disclosure for ongoing subsidiaries. This creates inconsistency with other IFRS Accounting Standards, such as IFRS 12 – *Disclosure of Interests in Other Entities* (IFRS 12) that does not require this level of disclosure for material wholly owned subsidiaries. Therefore, we are of the view that the disclosure requirements of IFRS 12 should rather continue to deal with the summarized financial information. For example, in the event that there are only a few subsidiaries in a group of companies, the information may be readily available to provide the required disclosure. However, in certain jurisdictions or groups of companies, there could be a significant number of subsidiaries in both hyperinflationary and non-hyperinflationary economies, and given the length it would add to the financial statements to provide the additional disclosure for each subsidiary impacted, the consolidated financial statements might lose its usefulness.

(c) We have concerns on the proposed wording which states "When the economy *whose currency is the entity's presentation currency ceases to be hyperinflationary and the entity's functional currency continues to be the currency of a non-hyperinflationary economy, the entity no longer applies paragraph 41A and instead applies paragraph 39. The entity shall do so prospectively from the* ***beginning of the reporting period*** *in which the economy ceases to be hyperinflationary….*" The highlighted wording raises questions on what would be termed as the beginning of the reporting period. We suggest that the IASB provides guidance and clarification on whether the beginning of the reporting means beginning of the interim period, or at the beginning of the financial year.

For example, for a listed entity with annual financial statements with previous interim or quarterly reporting, the question is what the intention on the start of the reporting period would be. Is it suggested that the entity retrospectively adjusts from the first day of the financial year or would it be the first day since it last published information such as the interim results. The current understanding is that we look at it as a full annual reporting period for example, annual financial statements with a December year-end would have its beginning of the reporting period as 1 January. Even with this understanding, it would be helpful for the Board to clarify the wording so that we can remove the inconsistencies in the market.

Other considerations:

Based on the discussions and observations our constituents had with analysts and investors, changes in comparative information creates confusion on the trends previously established and the models built. Hence, it is considered problematic. An example would be on the year-on-year trend and why the trend is being changed. We therefore suggest that the IASB considers establishing a standard that will focus on comparative information and provide guidance of how you lock in comparatives. We also suggest that the IASB considers having a requirement which states that entities with material non-controlling interests will be required to provide a summarised set of financial information for any subsidiaries that are material and are within the scope of a hyperinflationary economy, so that entities could be able to separate information that relates to hyperinflationary subsidiaries and information that does not relate to hyperinflationary subsidiaries. This would be better received than creating complexities around the restatement of comparatives.

However, we do note that there are instances where entities have subsidiaries which are listed, and the subsidiaries did not publish their financial information and therefore it would be difficult for the group to provide details on that particular subsidiary.

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?

We disagree with the proposed disclosure requirements for eligible subsidiaries as they will be duplicating the same disclosure that is proposed for IAS 21.

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 agree with the proposals to require an entity to apply the amendments retrospectively in accordance with IAS 8 and the proposals 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. We believe that these proposals would assist with comparability and are helpful.

In terms IFRS 1 – *First-time Adoption of IFRS* (IFRS 1), the question asked by our constituents is whether consideration should be given to situations where the reporting entity had been through a cycle of hyperinflation in previous years prior to IFRS adoption, so that the impact on the opening statement of financial position does not have to comply with these particular paragraphs. We think that it would be a helpful allowance to those adopting IFRS for the first time, as the integrity of information to be obtained prior to IFRS adoption would be questioned by the users of financial statements and the cost would exceed the benefit thereof for preparers of these financial statements.