KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

brian.odonovan@kpmgifrg.com

Dr Andreas Barckow
International Accounting Standards Board
Columbus Building
7 Westferry Circus
London
E14 4HD

Our ref BOD/288

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Dear Dr Barckow

Comment letter on exposure draft ED/2024/4 *Translation to a Hyperinflationary Presentation Currency – Proposed amendments to IAS® 21*

We appreciate the opportunity to comment on the International Accounting Standards Board's (IASB®) Exposure Draft 2024/4 *Translation to a Hyperinflationary Presentation Currency – Proposed amendments to IAS 21* (the ED or the proposals). We have consulted with, and this letter represents the views of, the KPMG network.

We support the IASB's efforts to address stakeholder concerns regarding diversity in applying the current translation requirements in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

We agree with the proposals, subject to some questions and recommendations set out in the appendix to this letter.

Please contact Brian O'Donovan at brian.odonovan@kpmgifrg.com or Mahesh Narayanasami at maheshnarayanasami@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix

KPMG's responses to the specific questions raised in the ED

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?

Proposed translation method

We agree with the proposed translation method from a non-hyperinflationary functional currency to a hyperinflationary presentation currency. Although we acknowledge the proposals would require many entities to change their current practice, we believe the proposals offer a solution that is simple to implement and would reduce diversity in practice.

Drafting comment

The way paragraph 41A is currently drafted does not make it clear that the paragraph also applies to a situation in which a parent's presentation currency is hyperinflationary but the functional currency of a foreign operation (that is included in the group financial statements) is not. The same issue also applies to paragraph 39. We believe this is a good opportunity for the IASB to clarify the scope of those paragraphs.

Situations with a one-way lack of exchangeability

We observe that the combined result of applying the amendments to IAS 21 *Lack of Exchangeability* (the 2023 Amendments) and the proposals in the ED could lead to an outcome that may be considered counterintuitive in certain situations involving a one-way lack of exchangeability. We recommend the IASB consider whether the outcome provides useful information to users of the financial statements.

For example, an entity with a functional currency that is not hyperinflationary (Euros, EUR), has a portion of its balances and transactions in a hyperinflationary currency (Argentine Peso, ARS). Assume that EUR is exchangeable into ARS, but ARS is not exchangeable into EUR. Also assume that the entity has adopted the 2023 Amendments. If ARS is not exchangeable into EUR, the balances and transactions in ARS are translated first to EUR using an estimated spot exchange rate based on the 2023 Amendments. If the entity's presentation currency is ARS, those balances are then translated back to ARS using the closing rate in accordance with paragraph 41A of the ED. Because ARS lacks exchangeability into EUR but not the other way around, the two-step translation of ARS balances could result in their financial statement amounts presented in ARS being significantly different from the actual ARS balances. We question whether such an outcome provides useful information to users of the financial statements.

Below is an example to illustrate the issue:

Exchange rate EUR:ARS	**Exchange rate ARS:EUR**
1:1,000	**1:0.0005**

- The exchange rates are only for illustrative purposes and do not represent the actual exchange rates between EUR and ARS.
- EUR is exchangeable to ARS and the spot exchange rate is 1:1,000.
- ARS is not exchangeable to EUR and the estimated exchange rate is 1:0.0005.
- The entity has a bank balance of ARS 1,000,000.

Step 1: translate the bank balance using ARS:EUR rate – EUR 500.

Step 2: translate the EUR 500 back to ARS using EUR:ARS rate for financial statement presentation – ARS 500,000.

The actual balance of ARS 1,000,000 would then be presented as ARS 500,000 in the ARS financial statements.

We acknowledge that this outcome is not created by the proposals in the ED and it results from applying the 2023 Amendments. However, the outcome arises in situations that are directly dealt with by this ED. We note that similar outcomes might arise in other situations. For example, when an entity with a hyperinflationary functional currency presents its financial statements in a non-hyperinflationary currency in accordance with paragraph 42 of IAS 21.

We therefore recommend the IASB seek additional input from stakeholders on the usefulness of the resulting information described above when there is a one-way lack of exchangeability.

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 support the disclosure proposals but recommend that the IASB clarify whether the summarised financial information about the foreign operation is required in the functional currency of the foreign operation or in the presentation currency of the parent/group. The phrase "for which the results and financial position have been translated..." in paragraph 53A(b) can be read as requiring the disclosure in the foreign operation's functional currency, whereas the explanation in paragraphs BC22 and BC25 suggests that the information should be provided in the presentation currency.

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 support the disclosure proposals, subject to the recommendation in our response to Question 2.

We are aware that some commentators may believe that the cost of preparing the summary information of foreign operation(s) may not outweigh the benefits of doing so, and that the proposals are therefore not aligned with the objectives of IFRS 19. While we acknowledge this concern, we support the disclosure proposals as we believe they would provide useful information for the users of the financial statements, as explained in paragraphs BC22 and BC25.

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 on transition and the requirements when the economy ceases to be hyperinflationary.