November 20, 2024

IFRS Foundation
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By E-mail: commentletters@ifrs.org

Re: Exposure Draft – Translation to a Hyperinflationary Presentation Currency: Proposed amendments to IAS 21

The New York State Society of Certified Public Accountants (NYCPA), representing more than 19,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned proposed regulations.

The NYCPA's International Accounting and Auditing Community of Practice (Community) deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Jean-Pierre Henderson, the chair of the International Accounting and Auditing Community, at jphenderson@cfgi.com, Renee Mikalopas-Cassidy, past chair of the International Accounting and Auditing Community, at rmctraveler@hotmail.com, or Keith Lazarus, NYCPA staff, at 212-719-8378.

Sincerely,
N Y C P A

N Y C P A
Kevin O'Leary
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

EXPOSURE DRAFT – TRANSLATION TO A HYPERINFLATIONARY PRESENTATION CURRENCY: PROPOSED AMENDMENTS TO IAS 21

November 20, 2024

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New York State Society of Certified Public Accountants

Comments on

Exposure Draft – Translation to a Hyperinflationary Presentation Currency: Proposed amendments to IAS 21

The New York State Society of Certified Public Accountants (NYCPA) welcomes the opportunity to respond to the invitation to comment on Exposure Draft – Translation to a Hyperinflationary Presentation Currency: Proposed amendments IAS 21 (*The Effects of Changes in Foreign Exchange Rates*) (the Exposure Draft)

Background

The Exposure Draft proposes to improve information provided to investors by requiring an entity to translate 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 using the closing rate at the date of the most recent statement of financial position.

Response

We support the IASB's efforts to clarify the requirements in IAS 21 to reduce diversity in practice and address known practice issues, and we agree the proposals will increase comparability between entities. However, we believe there are potential impacts the IASB should consider in its redeliberations that could warrant additional disclosures.

The following sets forth our comments:

General

We agree the narrow-scope amendments address the potential needs of users in the identified circumstances, including potential lenders or investors trying to determine how much is realizable from the net assets of foreign non-hyperinflationary subsidiaries.

We also agree that subsidiaries without public accountability (eligible subsidiaries), as defined in the prospective IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures,* should be required to disclose the same information as that required by other entities.

We agree an entity that translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency should be required to disclose summarized financial information about the results and financial position of that foreign operation.

We also agree with the proposed amendments to IAS 21 that requires an entity to translate 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 using the closing rate at the date of the most recent statement of financial position.

While we do not foresee any additional significant matters that would need to be considered or would require substantial additional resources for the IASB to complete this project, we suggest the IASB consider the following possible impacts, which may require additional disclosures when applying these amendments:

- The requirement to recast comparative amounts, using the closing rate at the date of the most recent statement of financial position, (see paragraph 42 of IAS 21) as a transitional method, would result in an entity presenting amounts subject to translation in terms of a current measuring unit. It should be noted that this would create inconsistencies in prior year regulatory and tax filings, which should be reconciled, or otherwise disclosed.

- Those who use the financial statements for internal use would need to be aware of recast comparative statements of profit or loss and financial positions, as well as interested third-parties, in order to properly understand the local currency operations.

- While we do not think that the proposed amendments have a major impact on convergence with US GAAP initiatives given the US is a historically non-hyperinflationary environment, we do see application where a US entity has complex layers of ownership, or indirect ownership of a hyperinflationary entity through an intermediate foreign subsidiary. As such, the recasting could possibly make certain footnote disclosures more complicated, in particular the reconciliation of net of tax assets or liabilities, both current and deferred, and the cash flow statements of the consolidating entities.

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?

Response: On the surface, this is a straight-forward method to allow an understanding of a foreign operation's balance sheet (statement of financial position) and its impacts on a hyperinflationary reporting entity.

We agree with the thinking in BC 20 that additional disclosure information is needed. It is always important to understand the needs of the user of financial statements. Often, local and regulatory users would need to understand, for lending purposes or taxation purposes perhaps, the local results on a stand-alone basis.

If the foreign, non-hyperinflationary assets and results of operations are used as collateral for purposes of a local loan, or subject to taxation by the reporting entity, then it is critical that additional information be disclosed regarding the ability to bring those assets into the hyperinflationary environmental in order to be used locally and what possible restrictions there are to actual use of such foreign assets, such as the settlement of local debt or obligations.

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?

Response: Yes, we agree with the proposed disclosures.

The exchange rate used should be disclosed. The current bank exchange rate, if known or available, should be used or disclosed, especially if there are restrictions on repatriating assets or on dividends received from a subsidiary.

In addition, while intercompany balances are eliminated in consolidation, it might be informative or even critical to understand how much the foreign entity is contributing by way of operations, expense reimbursement, or dividends into the hyperinflationary entity.

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?

Response: Yes, we agree with the proposed disclosure requirements.

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?

Response: Whether or not economies are hyperinflationary, and/or the period for which an economy is hyperinflationary, can sometimes be subject to debate.

Accordingly, the best accounting treatment for an informed user is the disclosure of the accounting being applied. The user is therefore allowed to determine whether they think the economy is hyperinflationary or not.