Translation to a Hyperinflationary Presentation Currency - Proposed amendments to IAS 21

Submitted by Bhopal Branch (CIRC) of ICAI

	Response	Rationale
Question 1: Proposed translation method	**Agree**	The method ensures consistency and comparability by translating all amounts (assets, liabilities, income, and expenses) at the closing rate. This reflects the current economic reality in hyperinflationary economies, as highlighted in BC7-BC9. Using historical rates would result in outdated and less useful information.
Question 2: Proposed disclosure requirements	**Agree**	The required disclosures provide transparency, especially regarding foreign operations and hyperinflation cessation, as noted in BC19. This helps users understand the impact of hyperinflation on financial statements and ensures users receive relevant information, facilitating analysis and comparison.
Question 3: Disclosure requirements for subsidiaries without public accountability	**Agree**	Despite not having public accountability, subsidiaries can significantly impact the financial position of the parent entity. Full disclosure ensures consistent reporting and transparency across all subsidiaries, aligning with the reasoning in BC27. This helps users assess the financial health of the entire group.
Question 4: Transition requirements and cessation of hyperinflation	**Disagree**	Retrospective application might impose an undue burden on entities, especially if data needed for restating previous periods is difficult to retrieve. The complexity and potential cost of applying the amendments retrospectively, as stated in BC33-BC36, may outweigh the benefits of increased comparability. Instead, a prospective approach with limited disclosures for past periods would provide a more pragmatic and cost-effective solution. Additionally, entities would avoid the need to recalculate historical financial statements, which may not reflect current market conditions.

Detailed Explanation for Disagreement on Question 4:

Response: ***Disagree***

Rationale:
The retrospective application of the proposed amendments to IAS 21 can indeed improve comparability across different reporting periods, but the practical and financial challenges it creates may outweigh the benefits, particularly for entities operating in hyperinflationary environments.

1. **Operational Burden**:
   Retrospective application requires entities to go back and restate financial data for prior periods, translating financial statements using the closing rate at the date of the most recent financial position. This can be an incredibly complex process, especially for entities in hyperinflationary economies where data collection may be inconsistent, incomplete, or inaccurate due to economic volatility. Companies may face difficulties retrieving historical data, particularly for periods where

inflationary shocks have caused substantial currency devaluation, exchange rate volatility, and fluctuations in purchasing power.

Even in economies with more stable conditions, reconstructing past financial information accurately to align with the proposed standards can impose considerable administrative burdens. The costs related to recalculating historical numbers, auditing those figures, and ensuring compliance with the new methodology could be significant. Companies may need to allocate substantial resources toward these activities, distracting from their core operations.

2. **Data Accuracy in Hyperinflationary Economies**:
   Hyperinflationary economies are marked by rapid and significant devaluation of currency, which can affect the availability and reliability of historical financial information. The adjustments needed for retrospective restatement could lead to inaccurate or misleading representations of a company's financial condition in past periods. For instance, if hyperinflation has radically altered the value of a currency, then restating past periods based on current exchange rates or price indices might not give an accurate reflection of the company's previous financial health.

Historical restatement, in such contexts, could distort the overall understanding of the financial situation in those prior periods, giving users a false sense of comparability between past and present financial conditions. This would undermine the intended benefit of retrospective application—enhancing comparability—since the restated data could lack true informational value.

3. **Restating May Not Reflect Current Conditions**:
   Financial statements are meant to reflect the economic conditions during the period they cover. Restating historical amounts based on the current hyperinflationary environment might result in financial information that is not representative of the economic context of those prior periods. For example, translating income, expenses, or assets from past years at the most recent closing exchange rate could exaggerate or understate the financial position of the entity during those times, misleading users about past performance.

Retrospective restatement also assumes that past transactions, assets, and liabilities should be re-evaluated in light of current inflation levels, which can misrepresent the decisions made by management in those periods based on the economic environment at that time. This could create confusion for investors and other stakeholders.

4. **Cost of Implementation vs. Benefits**:
   The cost of retrospective implementation may be substantial. Companies may need to hire external consultants or auditors, invest in new software systems for recalculating historical financial data, or devote internal resources to this task. This may be particularly challenging for smaller entities or those operating in jurisdictions with limited financial infrastructure.

While the IASB has argued in BC34-BC36 that the information needed for retrospective application should be available, this assumption may not hold true for all entities, especially those in highly volatile or developing markets. For many companies, the costs of collecting, processing, and auditing this information could outweigh the perceived benefits of comparability. In some cases, companies might be forced to make estimates or assumptions due to gaps in historical data, which could further diminish the accuracy and reliability of restated financial statements.

5. ***Alternative: Prospective Application***
   A more pragmatic approach would be to apply the proposed amendments prospectively, starting from the effective date of the amendments. This allows entities to adopt the new translation method moving forward without having to restate previous periods. Prospective application still

ensures that future financial statements are comparable and aligned with the current economic realities, without imposing unnecessary burdens on entities to revisit and rework past financial periods.

Additionally, companies could be required to provide limited disclosures for past periods, such as indicating that prior financial statements were not restated under the new method and explaining the potential impact of this difference. This approach ensures transparency while minimizing the operational costs and complexity associated with full retrospective application.