

Comments On Exposure Draft

Exposure Draft on Assessing Indicators of Hyperinflationary Economies IAS 29-issued by the IASB

Challenges in Current Practice

The identification of hyperinflationary economies under IAS 29 relies on qualitative and quantitative indicators. However, the application often involves significant professional judgment. Without a structured framework, entities may face inconsistencies in interpreting the standard, leading to:

- Delayed recognition of hyperinflation.
- Disparities in financial reporting between entities operating in similar environments.
- Challenges in aligning local reporting requirements with IFRS standards.

Proposed Framework for Systematic Assessment

A detailed framework could include the following components:

1. Indicator Classification

Indicators of hyperinflation could be categorized as follows:

Primary Indicators (Quantitative):

- A cumulative inflation rate of 100% over three years.
- Sharp depreciation of the local currency against foreign currencies.

Secondary Indicators (Qualitative):

- The general population's behavior, such as preferring foreign currencies or non-monetary assets over local currency.
- Widespread use of indexing for contracts, wages, and prices.
- Challenges in accessing financing denominated in the local currency.

By weighing these indicators, entities can decide whether hyperinflationary reporting is warranted.

2. Decision Tree/Matrix for Evaluation

Developing a decision tree or matrix can simplify judgment calls:

1. Inflation Rate Threshold:

- Does the cumulative inflation rate exceed 100%? If yes, proceed with hyperinflationary adjustments.

2. Currency Stability:

- Has the local currency depreciated significantly within a short timeframe?

3. Economic Behavior:

- Is the population avoiding the use of local currency for transactions and savings?

4. Price Indexation:

- Are contracts frequently indexed to foreign currencies or inflation-adjusted benchmarks?

Example Decision Tree:

Step 1: Is the inflation rate >100% over three years?

- Yes → Apply IAS 29.

- No → Proceed to Step 2.

- Step 2: Are two or more secondary indicators present?

- Yes → Consider hyperinflation adjustments.

- No → Regular accounting applies.

This systematic framework would enhance the reliability, consistency, and comparability of financial statements prepared under IAS 29.

Thanks & Regards



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