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Reference: Request for Information – Application of IAS 29 Financial Reporting in Hyperinflationary Economies

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to the Request for Information related to the application of IAS 29 Financial Reporting in Hyperinflationary Economies to identify whether an economy is hyperinflationary.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,



Marcio C. Rost
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

¹The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

Question 1

Have you observed diversity in practice in whether, when considering whether an economy is hyperinflationary applying IAS 29, other indicators of hyperinflation are considered even if one indicator in paragraph 3 of IAS 29 is met? For example, if the cumulative inflation rate for an economy over three years exceeds 100% (including if the rate only marginally exceeds 100%), have you observed diversity in whether other indicators of hyperinflation are considered? If possible, please support your answer with the real-life examples you have observed.

Note: we acknowledge that some may consider many indicators of hyperinflation but consider some indicators to be more indicative of hyperinflation than other indicators in particular situations - that is, some may attribute different weightings to different indicators depending on the facts and circumstances. Our question does not refer to such a situation. We refer to situations where other indicators of hyperinflation are not considered if one of the indicators in paragraph 3 of IAS 29 is met.

Our response:

Although Brazil is not under a hyperinflation scenario, we have noticed some issues in the application of IAS 29, mainly in relation to the definition of a hyperinflation economy and the indicators listed in paragraph 3 of IAS 29.

While IFRS Accounting Standards explicitly recognize that identifying hyperinflation requires judgment and lists five indicators of hyperinflation to be considered (along with any other relevant factors), the existence of an explicit rate in item (e) of the abovementioned paragraph in practice overrides the further indicators and leads to an assessment of item (e) in isolation. Also, it can be determined that in practice – while not the intent of the Board when drafting the requirements – this explicit rate of 100% stated in item (e) contradicts the previous statement made on the same paragraph that “the Standard does not establish an absolute rate at which hyperinflation is deemed to arise”.

The Board has clarified in paragraph 7 of IAS 29 that financial statements are useful only to the extent that they are expressed in terms of the measuring unit current at the end of the reporting period. In that regard, since IFRS Accounting Standards explicitly state that hyperinflation is a matter of judgment and should not be assessed by applying any of the indicators in isolation, the fact that there is a wide application of IAS 29 by entities only when the 100% threshold is met, it can be concluded that usefulness of information has been impaired for countries where the threshold has not been met and, therefore, IAS 29 had not been applied.

Academic studies (not limited to, but also including facts and circumstances from the Brazilian and Latin American economies) indicate that even lower inflation rates over

the three-year period may lead to misleading financial statements, mainly considering a persistent inflationary trend, as it has been observed in Brazil and some other countries. A local study of inflationary effects in European companies from 2002 through 2014 is also attached to this response.

We acknowledge that it is not an easy exercise to determine the most appropriate accumulated inflation rate to determine an hyperinflationary economy, and thus, CPC believes that the 100% threshold in paragraph 3 (e) could be replaced by further indicators that could be viewed as having the same relevance as items 3(a) through (d) and that would be more closely connected to the usefulness of information, taken into account the experience of jurisdictions that have experienced persistent inflation and how investors considered such information in their decision-making process.

We believe a research project should first focus on how usefulness (as stated on paragraphs 2 and 7) is in fact impaired by hyperinflation to then determine how (or if) an explicit threshold could be stated as an indicator of persistent inflation. In our opinion on this research, the Board could build on existing academic research on this topic to analyse whether there is a feasible manner to recognise that hyperinflation may exist before the 100% threshold is met and ensure consistency and comparability among entities reporting in such environments.

This approach would be consistent with feedback statement provided by the Board as part of the 2015 Agenda Consultation, where a project on high inflation was considered in the pipeline², and the subsequent discussions (i.e., on the April 2016 ASAF meeting³) prior to abandonment of the project where it was argued that (i) levels of inflation that existed globally at the time of issuance of IAS 29 are no longer prevalent; (ii) lower levels of inflation (i.e., 8% inflation per year) may lead to effects that are material; and (iii) more information is required about information needs of users of financial statements in such jurisdictions to better address the issue.

² Refer to feedback statement on the 2015 Agenda Consultation, available at <https://www.ifrs.org/content/dam/ifrs/project/2015-agenda-consultation/educational-materials/2016-feedback-statement.pdf>.

³ Refer to notes of the ASAF meeting on April, 2016, available at <https://www.ifrs.org/content/dam/ifrs/meetings/2016/april/asaf/asaf-summary-april-2016.pdf>.

Question 2

Have you observed consideration of indicators in addition to those listed in paragraph 3 of IAS 29? If so, please provide examples of such other indicators.

Our response:

Given the rationale described in Question 1, CPC believes that the Board should conduct a research to assess how persistent inflation trend over the years (even if the 100% rate is not achieved in the three-year period) that impairs usefulness of information (as stated on paragraphs 2 and 7 of IAS 2) could be considered an indicator that would be regarded as having the same relevance and weight as the other indicators listed in items (a) through (d) of paragraph 3 of IAS 29.

Question 3

Have you observed different conclusions at different levels within a group of companies about whether, applying IAS 29, an economy is hyperinflationary? For example, have you observed a situation in which (a) a subsidiary entity preparing financial statements applying IFRS Accounting Standards concluded the economy of its functional currency was not hyperinflationary; and (b) a parent entity of that subsidiary when preparing its financial statements applying IFRS Accounting Standards concluded that the economy of the subsidiary's functional currency was hyperinflationary. If so, please provide examples and the reasons for any difference.

Our response:

No different conclusions noted in practice.