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Inflationary Economies Questionnaire

Dear Sir, *Estimado Felipe,*

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the Inflationary Economies Questionnaire. This letter sets out the more critical comments raised by interested stakeholders involved in ANC's due process. Our Board has reviewed and approved this letter on May 05th 2017.

ANC is pleased to provide you with general comments on the Inflationary Economies questionnaire published by the standard-setting bodies from Argentina and Mexico early 2017. As France is below the 3% threshold since 1992 the 2017 questionnaire does not in itself apply. ANC understands that the situation may be different for entities having subsidiaries in a hyperinflationary context and entities with their registered office based in a hyperinflationary economy with no possibility to change the functional currency.

However, we wish to present you some of our views for the following reasons:

- Many French Groups have activities and subsidiaries in countries with a relatively high inflation level.
- In addition, ANC believes that any amendment to the standard should be conceptually justified in order to ensure it can be applied in any country that could face an increasing inflation rate in the future.

As a general reminder, ANC acknowledges that in April 2016, the Group of Latin American Accounting Standard-setter (GLASS) asked the IASB to consider amending IAS 29 to reduce the threshold retained in the standard from 100% to 26%. In the context of the Research performed by the IASB, the IASB included this project in its work program with the view to minimize the work needed and to avoid unintended effects of a change to IASB's standard. In this context, ANC underlines the following three major comments about hyperinflationary accounting.

1. Need to perform an economic analysis and a behavioral analysis

In ANC's view and as stated in IAS 29.3 *"this standard does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with this standard becomes necessary"*. Therefore, the three years cumulative inflation rate (IAS 29.3.e) is one of the non-limitative parameters identified in the standard to identify hyperinflation situations.

In addition, ANC underlines the fact that before applying any of IAS 29 requirements, entities have to identify what is the currency driving their business and if the functional currency used to prepare Financial Statements has to be changed in accordance with IAS 21 requirements.

To address the questions raised by hyperinflationary economies, ANC considers that a full analysis of economic characteristics, effects and behaviors in economies where the inflation rate is moderate or high should be performed to support the decisions taken and give a direction to the project.

When reaching a hyperinflationary environment (100% for instance), the economic behaviors change, the local currency is not used in the transactions (price is determined in a different currency), goods and services are quoted in foreign currency... However, ANC notes that the context is modified as soon as a country faces high inflation and that the inflationary process starts well before approaching this hyperinflation level.

The questions that consequently arise and need to be scrutinized are:

- When does inflation affect the economy and the accounting environment in a way that needs to modify the applicable accounting principles?
- From a conceptual standpoint how to ensure the IAS 29 requirements are applied not only as soon as the inflationary effects can be perceived, as soon as necessary?

2. ANC views on how IAS 29.3 should be applied

ANC understands that one of the concerns raised by the Group of Latin America Standard Setters (GLASS) is to lower the IAS 29.3.e criteria specifying that when the cumulative inflation rate approaches or exceeds 100% over three years it is probable that the economy is hyperinflationary and that IAS 29 needs to be applied.

However, as previously mentioned, ANC considers that IAS 29 only specifies a non-limitative list of indicators. ANC considers that the hyperinflationary accounting principles can already be applied to situations where the three years inflation rate is far below the 100% level, as soon as other effects on the economy and entity's activities can be identified. Therefore, there is no need to change the standard and

lower the threshold. The IASB's input could therefore be limited to the issuance of indications specifying how to assess hyperinflation and the need to the use of the threshold as a bright line.

ANC believes the standard simply needs to be clarified. However the point needs to be further investigated to identify what could be the most efficient approach to prepare Financial Statements complying with the objectives of IFRS standards.

3. ANC general considerations on hyperinflationary accounting

In ANC's view, IAS 29 provides accounting guidance that helps adjusting financial statements. However, ANC believes that the point related to how it can be dealt with non-monetary assets under hyperinflation needs to be clarified.

In practice, when applying IAS 29, only non-monetary assets and liabilities are adjusted. It means that the approach applied differs between monetary and non-monetary assets. Changing the functional currency provides in some instances a better vision of the situation as a large majority of contracts and activities are in that currency.

Overall conclusion

Even though not being directly impacted by moderate or high inflation rates in France, ANC understands the request and the need for other countries to apply IAS 29 requirements as soon as the inflationary economic effects appear which means in some instances before reaching the 100% threshold.

However, we believe that IAS 29 already permits to apply hyperinflation principles as soon as the other economical characteristics arise. Therefore, ANC considers that the role of the IASB should be limited to clarifying or confirming in the standard how to understand and apply IAS 29 and most specifically has to read the different criteria.

ANC supports an approach that would limit the effects of a change in the standard. The clarification could, in our view, be done by issuing an Annual Improvement, an Interpretation or an IFRS IC rejection. It is key that such decision is taken relying on an additional study about hyperinflationary economies to assess the effects of inflation on the environment and correlative behaviors.

Yours sincerely, *Un cordial saludo!*



Patrick de CAMBOURG

