IFRS news

January 2020

A look at current financial reporting issues

Hyper-inflationary economies at 31 December 2019 – PwC In brief

At a glance

This document presents the countries that are hyper-inflationary at 31 December 2019, and those that are not hyper-inflationary at that date but that should be kept under review in 2020. The quantitative data referred to in this document is based on International Monetary Fund data (World Economic Outlook database – October 2019).

IAS 29, 'Financial reporting in hyper-inflationary economies', should be applied by entities with a functional currency of the countries listed below (or groups with investments in entities with a functional currency of the currency of those countries) for accounting periods ending December 2019; and it should be applied as if the economy had always been hyper-inflationary.

What is the impact and for whom?

Hyper-inflationary economies in 2019 and countries to be kept under review for 2020

IAS 29 should be applied in 2019 to entities with a functional currency of the countries listed below:

- Argentina;
- South Sudan;
- Sudan;
- Venezuela; and
- Zimbabwe.

The following economies are not hyper-inflationary in 2019, but should be kept under review in 2020:

- Angola;
- Democratic Republic of the Congo;
- Liberia; and
- Iran.

Other potentially hyper-inflationary economies:

- Syrian Arab Republic; and
- Yemen.

Hyper-inflationary economies

Argentina

Argentina became a hyper-inflationary economy in 2018. IMF and local data show that the three-year cumulative inflation rate is expected to significantly exceed 100% at 31 December 2019 and is expected to remain significantly above that threshold in future years. Argentina continues to be a hyper-inflationary economy in 2019. Entities with the currency of Argentina as their functional currency should continue to apply IAS 29 in 2019.

South Sudan

IMF data shows that the three-year cumulative inflation rate is expected to significantly exceed 100% at 31 December 2019 and is expected to remain significantly above that threshold in future years. South Sudan continues to be a hyper-inflationary economy in 2019. Entities with the currency of South Sudan as their functional currency should continue to apply IAS 29 in 2019.

Sudan

Sudan became a hyper-inflationary economy in 2013. In 2016, it ceased to be hyper-inflationary, because the three-year cumulative inflation rate at the end of that year was below 100% and was forecast to remain below 100%. IMF data for 2019 shows that the three-year cumulative inflation rate has increased significantly and is expected to be above 100% in 2019, and to remain above that threshold in 2020. Therefore, IAS 29 should be applied by all entities with the currency of Sudan as their functional currency in 2019, and IAS 29 should be applied as if the economy had always been hyper-inflationary.

Venezuela

Venezuela became hyper-inflationary in 2009. IMF data shows that the three-year cumulative inflation rate is expected to significantly exceed 100% at 31 December 2019 and is also expected to increase in future years. Venezuela remains a hyper-inflationary economy in 2019. Entities with the currency of Venezuela as their functional currency should continue to apply IAS 29 in 2019. material in some cases.

Zimbabwe

Following a period of severe hyper-inflation more than ten years ago, the government of Zimbabwe abandoned the Zimbabwe dollar, and other currencies such as the US dollar and the South African Rand became widely used as legal tender. However, in October 2018, the Zimbabwe currency was re-introduced so that other currencies are no longer legal tender. Inflation has increased significantly since the return to a national currency and cumulative inflation since October 2018 exceeds 100%. Qualitative indicators also support the conclusion that Zimbabwe is now a hyper-inflationary economy for accounting purposes. Entities with the currency of Zimbabwe as their functional currency should apply IAS 29 for periods ending after 1 July 2019 as if the economy had always been hyper-inflationary.

To be kept under review in 2020

Angola

Angola was classified as a hyper-inflationary economy at the end of 2018. IMF data shows that the three-year cumulative inflation rate is now expected to be below 100% in 2019. Local inflation data is consistent with the IMF projections for 2019. The qualitative indicators are mixed, but they also suggest that Angola is no longer hyper-inflationary. When a country is no longer hyper-inflationary, IAS 29 notes that the amounts reported in the financial statements as at the end of the previous reporting period are considered to be the carrying amounts for the subsequent financial statements – that is, the restated amounts are the cost bases of any non-monetary items in subsequent financial statements.

Given that inflation remains high, entities with the currency of Angola as their functional currency should monitor developments in inflation during 2020.

Democratic Republic of the Congo

IMF data shows that the three-year cumulative inflation rate is slightly below 100%, and it is expected to decrease in 2020 as the significant inflation in 2017 falls out of the three-year period. The inflation rate has fallen in both 2018 and 2019. Entities with the currency of Democratic Republic of the Congo as their functional currency should not apply IAS 29 in 2019, but they should continue to monitor inflation during 2020.

Liberia

IMF data shows that the three-year cumulative inflation rate is below 100%, but it is expected to increase in 2020. Local data suggests that cumulative inflation is lower than the IMF estimates. Entities with the currency of Liberia as their functional currency should not apply IAS 29 in 2019, but they should continue to monitor inflation during 2020.

Iran

IMF estimated data shows that the three-year cumulative inflation rate for 2019 is above 100%. However, the IMF has used Iranian sources that estimated inflation for the Iranian calendar that ends on 31 March of each year. Local inflation data shows that, for the three years ended December 2019, inflation is below 100% and qualitative factors are mixed. Entities with the currency of Iran as their functional currency should not apply IAS 29 in 2019. Considering that inflation has increased recently, it is probable that the currency of Iran might become hyper-inflationary in 2020, and so entities should monitor inflation during 2020.

Other potentially hyper-inflationary economies

Syrian Arab Republic

Consistent and reliable inflation data for Syria is not available. However, European Union and United Nations trade sanctions remain in force. The information that is available, including some local data, suggests that Syria might be a hyper-inflationary economy in 2019. Entities with the currency of Syria as their functional currency should consider the information available at December 2019 to determine whether IAS 29 is applicable.

Yemen

IMF data shows that three-year cumulative inflation is close to 100%. Other information, including local data, suggests that the Yemen three-year cumulative inflation might be above 100% and that the qualitative indicators might suggest that the economy is hyper-inflationary. Entities with the currency of Yemen as their functional currency should consider the information available at December 2019 to determine whether IAS 29 is applicable.

When does it apply?

IAS 29 should be applied, by entities with a functional currency of Argentina, South Sudan, Sudan or Venezuela, or by groups that have investments with those functional currencies, for accounting periods ending December 2019; and it should be applied as if the economy had always been hyper-inflationary.

Where do I get more details?

For more information on the application of IAS 29, refer to PwC In depth, '[IAS 29 becomes applicable in Argentina,](#)', or please contact

Tony Debell
tony.m.debell@pwc.com

Pablo Aligia
pablo.a.aligia@pwc.com

IFRS IC decision on IFRS 16 lease term – PwC In brief

At a glance

The IFRS Interpretations Committee (IC) concluded that the enforceable period of a lease under IFRS 16, 'Leases', reflects broader economics, not just legal rights and termination cash payments. Lessees consider the enforceable period when they are determining the lease term, and therefore which payments to include in the lease liability. Lessees that had previously interpreted the enforceable period more narrowly will need to consider the impact, which may increase recognised lease liabilities.

What is the issue?

IFRS 16, 'Leases', requires a lessee to recognise a lease liability for almost all leases. The lease liability is the present value of lease payments during the lease term. A longer lease term will typically create larger lease liabilities.

The lease term cannot exceed the period for which the lease is enforceable. Paragraph B34 of IFRS 16 says that **'A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.'**

IFRS 16 does not define the words 'penalty' or 'enforceable'. The IC observed that, in applying paragraph B34, an entity considers the broader economics of the contract, and not only contractual termination payments. If either party will incur a more than insignificant penalty from terminating (including economic penalties), the lease is enforceable beyond that date.

Once the enforceable period has been determined the lessee applies the guidance on lessee extension/termination options to determine the lease term, that is, if the lessee is reasonably certain to continue using the asset, the periods are included in the lease term.

What is the impact and for whom?

Entities which had previously interpreted paragraph B34 differently, for example only considering contractual termination payments as penalties, will need to re-assess the lease term for their leases. Using a broader interpretation of penalty, some leases will have a longer enforceable period. If there are longer enforceable periods and the lessee is reasonably certain to continue using the asset, it will result in a longer lease term and therefore larger lease liabilities for the lessee.

When does it apply?

The agenda decision has no formal effective date. The IC has noted that agenda decisions might often result in explanatory material that was not previously available, which might cause an entity to change an accounting policy. The IASB expects that an entity would be entitled to sufficient time to determine and implement any change. In this case, entities might not have sufficient time to implement the changes by 31 December 2019, particularly if they have a large volume of leases with different terms and conditions.

When the change in policy is implemented, it should be applied retrospectively, and comparative amounts should be restated. When management has concluded that a change in an accounting policy is required as a result of an agenda decision but that change has not been made yet, they should consider providing disclosures similar to those provided about forthcoming standards in accordance with paragraphs 30 and 31 of IAS 8.

Where do I get more details?

For more information, refer to the agenda decision

or please contact

Jessica Taurae
jessica.taurae@pwc.com

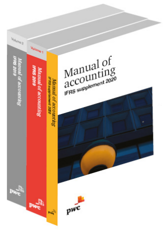
Word on the Wharf

The Board met on Wednesday 11 and Thursday 12 December 2019 at the IFRS Foundation's offices in London.

The topics, in order of discussion, were:

- Implementation Matters
- Accounting Policies and Accounting Estimates (Amendments to IAS 8)
- Financial Instruments with Characteristics of Equity
- Amendments to IFRS 17 Insurance Contracts
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)
- 2019 Comprehensive Review of the IFRS for SMEs Standard
- IBOR Reform and the Effects on Financial Reporting
- Subsidiaries that are SMEs
- Business Combinations under Common Control

Order now: Manual of accounting – IFRS Supplement 2020



This publication comprises a new chapter on insurance contracts under IFRS 17 and an updated chapter on leasing under IFRS 16 – order your hard copy here. The eBook and electronic versions of the IFRS Manual contain additional updates for chapters not reproduced in the printed IFRS supplement – apply for a free trial of Inform now.

Contacts

For further help on IFRS technical issues, contact:

Andri Stavrou
Tel: +30 210 687 4703
E: andri.stavrou@pwc.com

Financial instruments and financial services

Kyriaki Plastira
Tel: +30 210 687 4425
E: kyriaki.plastira@pwc.com

Revenue recognition, liabilities and other areas

Vart Kassapis
Tel: +30 210 687 4757
E: vart.kassapis@pwc.com

Business combinations and adoption of IFRS

Iliana Kostoula
Tel: +30 210 687 4044
E: iliana.kostoula@pwc.com

20113-151533-OP-OS