



HM TREASURY

Financial Reporting Advisory Board Paper

Financial Reporting Standard (FRS) 24 (IAS 29) - Financial Reporting in Hyperinflationary Economies

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| Issue: | FRS 24 (IAS 29)– Financial Reporting in Hyperinflationary Economies |
| Impact on guidance: | The new FReM will reflect the application of FRS 24 |
| UK GAAP adaptation? | No |
| IAS/IFRS compliant? | Yes |
| IPSAS compliant? | N/A |
| Impact on budgetary regime? | No |
| Recommendation: | That the FRAB approves the proposed wording for the FReM |
| Timing: | 2006-07 |

DETAIL

Background

1. FRS 24 *Financial Reporting in Hyperinflationary Economies* was issued in December 2004 to implement IAS 29 and to replace UITF abstract 9 'Accounting for Operations in Hyper-inflationary Economies.

2. This FRS forms part of the batch of new standards that includes:

- FRS 23 Effects of Changes in Foreign Exchange Rates
- FRS 25 Financial Instruments: Disclosure and Presentation
- FRS 26 Financial Instruments: Measurement

Unless and until an entity applies FRS 26 it is not permitted to adopt this standard; and if it applies FRS 26 it must also apply this standard.

3. The standard continues to prescribe specific standards for entities reporting in the currency of a hyperinflationary economy, so that the financial information provided is meaningful.

4. The main changes to UITF abstract 9 are that:

- The scope of FRS 24 is wider than UITF 9. UITF 9 applies only to 'group financial statements'. FRS 24, on the other hand, also deals with the accounting to be adopted in individual financial statements when the entity has a functional currency that is the currency of a hyperinflationary economy.
- UITF 9 specifies two methods of eliminating the distortions caused by hyperinflation. FRS 24, on the other hand, is more prescriptive in that it requires use of a current price level approach.
- FRS 24 is in other ways also more detailed and more prescriptive than UITF 9. FRS 24's disclosure requirements are also a little more detailed.

5. The FRS will be mandatory for listed entities for accounting periods beginning on or after 1 January 2005. Other entities have the option of applying the standard, though only if they also apply FRS 26.

6. It is proposed that this FRS should be adopted **only** when approval for adoption of FRS 26 Financial Instruments: Measurement has been agreed by the FRAB (subject to a separate paper).

UK GAAP compliance

7. No adaptation of the standard would be required.

IAS/IFRS compliance

8. Other than minor text amendments to enable the Standard to be applied in a UK context, the FRS is identical to IAS 29.

IPSAS compliance

9. N/A

Proposed amendment to the Government Financial Reporting Manual

10. See Annex A for the proposed amendment to the FReM.

Impact on the budgetary regime

11. None.

Impact of amendment on Department Yellow

12. N/A

Summary and recommendation

13. The FRAB is invited to note the contents of FRS24, and to approve the wording for the FReM. The board is also invited to agree that this FRS should only be adopted when approval has been agreed for the adoption of FRS 26 Financial Instruments: Measurement.

HM Treasury
26 January 2005

PROPOSED AMENDMENT TO THE GOVERNMENT FINANCIAL REPORTING MANUAL

NB: the exact position of this text within FReM Chapter 4 has yet to be decided

FRS24 Financial reporting in hyperinflationary economies

Applicability

FRS 24 applies in full to the entities covered by this Manual.

Objectives of FRS 24

The standard applies to all financial statements of a reporting entity whose functional currency is the currency of a hyperinflationary economy.

Interpretation of FRS 24 for the public sector context

As all entities covered by this Manual have a functional currency of pounds sterling, HM Treasury will notify classification of hyperinflationary economy if appropriate.