

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2010/23

SEVERE HYPERINFLATION PROPOSED AMENDMENT TO IFRS 1



Background

The International Accounting Standards Board (IASB) has issued for comment an Exposure Draft (the ED) of proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

The ED has been issued following a request that was received by the IFRS Interpretations Committee (the Committee) to clarify how an entity should resume presenting financial statements in accordance with IFRS after a period of severe hyperinflation, during which it had been unable to comply with IAS 29 *Financial Reporting in Hyperinflationary Economies*. While the Committee noted that IFRSs do not provide guidance covering this issue, it also noted that a related consequence was that an entity would be unable to comply with the IFRS 1 requirement to present an opening statement of financial position. Consequently the issue was referred to the IASB.

Proposals

Scope

The ED proposes to add an additional relief to IFRS 1 for those entities that were unable, for a period of time, to prepare financial statements in accordance with IFRSs because of severe hyperinflation. Although those entities might previously have prepared financial statements in accordance with IFRS, because they were then unable to prepare IFRS compliant financial statements for a period as they could not comply with the requirements of IAS 29, they meet the criteria to be first-time adopters of IFRS at the point at which they become able again to present financial information in accordance with IFRS.

The ED does not propose guidance for entities affected by severe hyperinflation that are not within the scope of IFRS 1, such as a parent entity that reports in accordance with IFRS, which has a subsidiary that was affected by severe hyperinflation. The IASB has noted in its Basis for Conclusions that it understands that this is unlikely to be a significant or widespread issue for those entities, as they have found appropriate guidance elsewhere in IFRS:

Definitions

The ED includes guidance which defines two key points. These are:

1. Severe hyperinflation
 - The currency of a hyperinflationary economy is subject to severe hyperinflation if a reliable price index is not available and exchangeability between the currency and a relatively stable foreign currency does not exist.
2. Functional currency normalisation date
 - The functional currency normalisation date is the date when the entity's functional currency ceases to suffer from severe hyperinflation (as defined above); or
 - The entity's functional currency changes to a currency that is not subject to severe hyperinflation.

STATUS

Exposure Draft

EFFECTIVE DATE

To be confirmed

ACCOUNTING IMPACT

Amendments to IFRS 1 would permit an entity that has been subject to severe hyperinflation to present its assets and liabilities at fair value and use that fair value as deemed cost for those assets and liabilities in its opening IFRS statement of financial position

Measurement, presentation and disclosure

The proposals would permit an entity, with a functional currency that was subject to severe hyperinflation before its date of transition to IFRS, to elect to measure its assets and liabilities at fair value and to use that fair value as deemed cost in its opening IFRS statement of financial position. The adjustments would be recognised directly in retained earnings or, if appropriate, in another category of equity at the date of transition to IFRS.

The election would be available as at an entity's date of transition to IFRS, which can be on or after the functional currency normalisation date. This is intended to address practical concerns that could arise if those two dates are different.

The proposed guidance would be optional, meaning that it could be applied to some, but not all, of an entity's assets and liabilities. This is because it is possible that an entity could provide more useful information in its financial statements through the application of other guidance in IFRS 1. This might be the case where an entity has some assets and liabilities that were not affected by hyperinflation.

When the election is made, the entity's first IFRS financial statements would disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that was subject to severe hyperinflation.

Comparative information

IFRS 1.21 requires comparative information in accordance with IFRS to be presented for periods before the functional currency normalisation date. However, the IASB has noted in the Basis for Conclusions that, because of the effects of severe hyperinflation in periods before the date of transition to IFRSs, entities should consider whether disclosure of non-IFRS comparative information and historical summaries would provide useful information for users of the financial statements.

Comment period

The IASB has requested the submission of comments on its proposals by 30 November 2010.

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