Project **Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards***

Topic **Analysis of comment letters received on the exposure draft *Severe Hyperinflation***

Purpose of this paper

1. The purpose of this paper is to document the staff analysis of comment letters received on the exposure draft *Severe Hyperinflation* (amendment to IFRS 1 *First-time adoption of International Financial Reporting*) published in September 2010, and to present the staff recommendation for finalising the amendment.

2. This paper:

   (a) provides background information of this issue;

   (b) provides a summary of the comment letters received;

   (c) provides an analysis of specific comments, including staff recommendations thereon; and

   (d) asks the Board whether they agree with the staff recommendation.

Background of the issue

3. In February 2010, the IFRS Interpretations Committee received a request to clarify how an entity should resume presenting financial statements in accordance with IFRSs after a period of severe hyperinflation, during which it

had been unable to comply with IAS 29 *Financial Reporting in Hyperinflationary Economies*.

4. The request identifies an entity whose functional currency is the currency of a hyperinflationary economy. The entity is unable, for a period of time, to comply with IAS 29 and prepare financial statements in accordance with IFRSs, because the general price index relating to the entity's functional currency is unavailable, and the functional currency lacks exchangeability.

5. The request asks how such an entity should resume preparing financial statements under IFRSs when the entity's functional currency subsequently ceases to be the currency of a severely hyperinflationary economy described as the situation in paragraph 31C of the exposure draft, as follows:

> If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening IFRS statement of financial position because of severe hyperinflation (see paragraphs D27–D30), the entity's first IFRS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that has both of the following characteristics:
>
> (a) a reliable general price index is not available to all entities with transactions and balances in the currency.
>
> (b) exchangeability between the currency and a relatively stable foreign currency does not exist..

6. In September 2010, the Board concluded that current IFRSs do not provide sufficient guidance on this issue. It decided to amend IFRS 1 to allow an entity whose functional currency had been subject to severe hyperinflation to elect to measure its assets and liabilities at fair value, and use that fair value as deemed cost in its opening statement of IFRS financial position.

7. The Board published the exposure draft *Severe Hyperinflation (amendment to IFRS 1)* in September 2010, with a 60 day comment period. The comment period ended on 30 November 2010. The comment letter analysis is presented below.

Comment analysis

Summary of the comments

8. 28 comment letters were received by the time the paper was drafted. Appendix A provides a breakdown of the demographic information of the respondents.

9. All the comment letters received supported the proposed amendment to IFRS 1. All comments received were considered by the staff, and those most relevant to the issue are discussed below.

Analysis of specific comments

10. Comments received have been categorised as follows:

    (a) the scope of the proposed amendment,

    (b) the date of transition to IFRSs and provision of comparative information, and

    (c) Other comments:

        (i) the definition of the phrase 'severe hyperinflation'

        (ii) the need for future deliberation of IAS 29 by the Board, and

        (iii) reconciliations to previous GAAP.

The scope of the proposed amendment

11. Some respondents raised concerns about the scope of the proposed exemption as to:

    (a) which entities can apply the proposed exemption, and

    (b) which assets and liabilities the exemption could or should be applied to, *Which entities can apply the proposed exemption?*

12. Some respondents[1] asked for clarification on which entity can apply the proposed amendment. They asked if the amendment would apply to any entity whose functional currency had been subject to severe hyperinflation in the past, whether or not this entity prepared financial statements under IFRS at the time.

13. Consider an example of an entity that had not previously applied IFRSs, and had been operating under severe hyperinflation say 5 years ago. This entity then plans to list its shares on a market that requires the entity to prepare financial statements in accordance with IFRSs. If the proposed amendment is restricted to entities that had previously applied IFRS and had recently emerged from severe hyperinflationary conditions, this entity described above would not be able to prepare financial statements in accordance with IFRSs for the same reasons as for the IFRS preparer, yet it would also not be able to apply the exemption.

14. The staff think that the amendment should be available to all entities whose functional currency has been subject to severe hyperinflation (as described in D28) in the past.

15. The staff do not think any changes are required to the proposed amendment, but think that this point should be made clear in the Basis for conclusion, to clarify the Board's intention. Refer Appendices B and C for the revised draft of the proposed amendment.

Question 1 for the Board
Does the Board agree with the staff that the amendment should be made available to all entities whose functional currency has been subject to severe hyperinflation in the past?

Which assets and liabilities could or should the proposed exemption be applied to?

[1] NeoCFO; DASD; ASB; AcSB; E&Y; KPMG

16. Some respondents[2] argued that the amendment should clarify which assets or liabilities the proposed exemption could or should be applied to. The concern raised is that if there is no restriction on the assets and liabilities to which the exemption can apply, the risk is that an entity could unnecessarily apply the fair value measurement option provided by this exemption to assets and liabilities that were acquired after the functional currency normalisation date. In addition, the respondents asked whether the exemption may be applied to assets and liabilities on an 'item by item' basis.

17. The staff think that the fair value measurement option should be applied only to assets and liabilities acquired or held before the functional currency normalisation date. The staff also think that the Board intended that the amendment may be applied to these assets and liabilities on an item by item basis. The staff thinks that, in many cases, an entity will be obliged to make use of the exemption for those assets and liabilities held at the functional currency normalisation date, because the staff thinks there will be few circumstances in which an entity will be able to use an alternative basis to measure the asset or liability in accordance with IFRS.

18. The staff think that these points requires clarification in the wording of the proposed amendment. Refer Appendices B and C for the revised draft of the proposed amendment.

Question 2 for the Board
Does the Board agree with the staff that: 2(a) The fair value measurement option should be applied only to assets and liabilities acquired or held before the functional currency normalisation date?

[2] Dutch Accounting Standards Board (DASD); Accounting Standards Board UK (ASB); Grant Thornton International; Canadian Accounting Standards Board (AcSB); Korean Accounting Standards Board; E&Y; SAICA; PWC; Association of Chartered Certified Accountants (ACCA); KPMG

2(b) The amendment may be applied to these assets and liabilities on an item by item basis?

The date of transition to IFRSs and provision of comparative information

19. The point raised by the respondents[3] is best illustrated by an example. Consider the following case: an entity has a reporting date of 31 December and the functional currency normalisation date was 19 February 2009. The entity had not been able to comply with IFRS since 2007 because of severe hyperinflation. It is intending to re-adopt IFRSs for its financial statements for the year ending 31 December 2010. The entity determines the most convenient date for its transition to IFRSs to be 1 March 2009. This would mean that the first period of IFRS preparation would cover 10 months (to 31 December 2009), and not a full 12 months. This would therefore give a short comparative period. The alternative would be for the entity to defer its date of transition to IFRSs to 1 January 2010 in order to provide comparative information for 12 months. The effect of this, however, would be that the entity would have to defer its re-adoption of IFRSs for its financial statements for the year ending 31 December 2011, instead of 31 December 2010.

20. The question raised was whether the Board thinks it is appropriate for an entity to have a short comparative period, when the functional currency normalisation date falls within the comparative period.

21. The staff think that, provided the information is complete, a comparative period of less than 12 months is acceptable. However, the staff think that the wording of the exemption should be clear that a shorter comparative period is only acceptable for entities falling within the scope of this exemption, and where the functional currency normalisation date falls within the comparative period.

[3] PwC; Public Accountants and Auditors Board Zimbabwe; SAICA; BDO; University of Wisconsin La Crosse; Chris Barnard; E&Y; ACCA

Refer Appendices B and C for the suggested wording in the revised draft of the proposed amendment.

Question 3 for the Board
Does the Board agree with the staff 's view that a comparative period of less than 12 months is acceptable in the circumstances described above?

Other comments

The description of 'severe hyperinflation'

22. Some respondents[4] argue that the amendment should be clear as to whether severe hyperinflation is specific type of hyperinflation. In other words, does the entity's functional currency need to be that of a hyperinflationary economy per IAS 29 for it to be determined as subject to severe hyperinflation?

23. The staff think that this amendment was intended to assist entities in presenting financial statements in accordance with IFRSs after a period of severe hyperinflation, *during which it had been unable to comply with IAS 29*. Therefore, an entity's functional currency would already be that of a hyperinflationary economy. This is mentioned in the Basis for conclusions (refer BC63F) and the staff do not think that further clarification is required.

Request for the Board's future consideration of IAS 29

24. Some respondents[5] stated that IAS 29 does not provide sufficient guidance for an entity in a hyperinflationary economy. They suggest that accounting for hyperinflation should be considered by the Board in the future.

25. During outreach performed on the severe hyperinflation issue, the staff have noted that other constituents are also concerned about the guidance provided in

[4] University of Wisconsin La Crosse; Chris Barnard; E&Y; ACCA
[5] Linus Low; DASD; Deloitte; E&Y; ACCA

IAS 29. The staff therefore recommend that the Board consider adding a review of IAS 29 to its future agenda.

Reconciliation to previous GAAP

26. One respondent[6] suggested that the proposed exemption should also exempt entities from applying the reconciliation requirement in IFRS 1.24. They argue that the information available prior to the functional currency normalisation date may not be particularly relevant or useful.

27. The staff think that the reconciliation provides an explanation of the changes made from the numbers presented previously to users of the financial statements, to the numbers presented under IFRSs. The reconciliation provides useful information, for example to differentiate fair value adjustments from changes in accounting policies. The staff think that entities falling within the scope of this exemption should still be required to perform the reconciliation per paragraph 24 of IFRS 1, and recommend no action be taken in respect of this issue.

Question 4 for the Board
Does the Board agree with the staff 's view that no changes to the amendment are required in respect of the other comments discussed above?

Staff recommendation

Effective date

28. The staff recommend that the final amendment be effective for reporting periods beginning on or after 1 July 2011. The staff also recommend that earlier adoption is permitted as proposed in the exposure draft.

[6] PWC

Next steps

29. Subject to discussions at the Board meeting, the staff will prepare a ballot draft taking the Board's comments into account, with the objective of issuing the amendment by 24 December 2010. This will assist those entities wishing to apply the amendment in their 2010 financial statements.

30. This issue will be balloted along with the *Removal of Fixed Dates* amendment to IFRS 1, that was discussed at the November Board meeting.

Question 5 for the Board
5(a) Does the Board have anything further to add with respect to the comments received on this exposure draft?
5(b) Does the Board have any comments on the proposed wording for the amendment to IFRS 1 in Appendices B and C?
5(c) Does the Board approve the staff to proceed with this proposed amendment including finalisation of drafting and a ballot to be provided to the Board for finalisation of this project?

Appendix A – Demographic information of respondents

A1. This Appendix provides demographic information on the respondents to the exposure draft *Severe Hyperinflation* published in September 2010. The table below contains details of the respondents to the exposure draft, who submitted comment letters by 30 November 2010, categorised by type and geography. 31 comment letters were received in total.

CL#	Respondent	Respondent Type	Geography
1	University of Wisconsin La Cross		US
2	tmbankaudit	Other/Individual	The Russian Federation
3	Chris Barnard	Other/Individual	Germany
4	Linus Low	Other/Individual	Singapore
5	NeoCFO	Preparer	India
6	Constant ITEM Purchasing Power Accounting	Preparer	Portugal
7	Dutch Accounting Standards Board (DASD)	Standard Setter	The Netherlands
8	Central Bank of Russia	Preparer	The Russian Federation
9	Accounting Standards Board (ASB)	Standard Setter	UK
10	Chartered Accountant of Ireland	Standard Setter	Ireland
11	Grant Thornton International	Preparer	UK
12	Deloitte Touche Tohmatsu Limited	Accounting Firm	Global
13	Canadian Accounting Standards Board (AcSB)	Standard Setter	Canada
14	L. venkatesan	Other/Individual	India
15	Public Accountants and Auditors Board, Zimbabwe	Standard Setter	Zimbabwe
16	FEI Canada	Preparer	Canada
17	Korean Accounting Standards Board (KASB)	Standard Setter	South Korea
18	Ernst & Young EYGS LLP	Accounting Firm	Global
19	The South African Institute of Chartered Accountants (SAICA)	Standard Setter	South Africa
20	Mrs. Denise S F Juvenal	Other/Individual	Brazil
21	Institute of Chartered Accountants of Zimbabwe	Standard Setter	Zimbabwe
22	PWC	Accounting Firm	Global
23	Malaysian Accounting Standards Board (MASB)	Standard Setter	Malaysia
24	Mr Aleem Islan	Association of Accounting Technicians	UK
25	Association of Chartered Certified Accountants (ACCA)	Standard Setter	UK
26	KPMG	Accounting Firm	UK
27	BDO	Accounting Firm	UK
28	*Received after the paper was drafted and after comment letter deadline*		
29	Mario Abela, EFRAG	Standard Setter	Europe

Appendix B – Draft wording of the final amendment as compared to the current version of IFRS 1

B1. The staff proposes draft wording for the final amendment. This Appendix shows the proposed draft wording **as compared to the current version of IFRS 1.** Proposed changes from the current standard are shown as follows: new text is underlined and deleted text is struck through. All Board edits/comments are appreciated in preparation for the final amendment balloting.

Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

After paragraph 31B a heading and paragraph 31C are added.

Presentation and disclosure

Use of deemed cost after severe hyperinflation

31C If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening IFRS statement of financial position because of severe hyperinflation (see paragraphs D27–D31), the entity's first IFRS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that has both of the following characteristics:

(a) a reliable general price index is not available to all entities with transactions and balances in the currency.

(b) exchangeability between the currency and a relatively stable foreign currency does not exist.

Paragraph 39H is added.

Effective date

39H *Severe Hyperinflation* (Amendment to IFRS 1), issued in December 2010, amended paragraph D1 and added paragraphs 31C and D27–D31. An entity shall apply those amendments for annual periods beginning on or after 1 July 2011. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Paragraph D1 is amended (new text is underlined and deleted text is struck through) and a heading and paragraphs D27–D31 are added.

Appendix D

Exemptions from other IFRSs

D1 An entity may elect to use one or more of the following exemptions:

(a) …

(o) transfers of assets from customers (paragraph D24); ~~and~~

(p) extinguishing financial liabilities with equity instruments (paragraph D25); and

(q) severe hyperinflation (paragraphs D27–D31).

An entity shall not apply these exemptions by analogy to other items.

Severe hyperinflation

D27 If a first-time adopter has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of transition to IFRSs.

D28 The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

(a) a reliable general price index is not available to all entities with transactions and balances in the currency.

(b) exchangeability between the currency and a relatively stable foreign currency does not exist.

D29 The functional currency of an entity ceases to be subject to severe hyperinflation on the functional currency normalisation date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph D28, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.

D30 When an entity's date of transition to IFRSs is on, or after, the functional currency normalisation date, the entity may elect to measure assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to IFRSs. The entity may use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

D31 When the functional currency normalisation date falls within the comparative period, the comparative period may be less than 12 months, provided that complete information is provided for the shorter period.

Amendment to the Basis for Conclusions on IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph BC30 is amended (new text is underlined and deleted text is struck through), and a heading and paragraphs BC63F–BC63FE are added.

BC30 An entity may elect to use one or more of the following exemptions:

(a) …
(k) lease (paragraph BC63D–BC63DB); ~~and~~
(l) borrowing costs (paragraph BC63E)~~.~~; and
(m) severe hyperinflation (paragraphs BC63F–BC63FE).

An entity shall not apply these exemptions by analogy to other items.

Severe hyperinflation

BC63F In 2010, the Board was asked to clarify how an entity should resume presenting financial statements in accordance with IFRSs after a period of severe hyperinflation, during which the entity had been unable to comply with IAS 29 *Financial Reporting in Hyperinflationary Economies*. An entity would be unable to comply with IAS 29 if a reliable general price index is not available to all entities with that same functional currency, and exchangeability between the currency and a relatively stable foreign currency does not exist. However, once the functional currency changes to a non-hyperinflationary currency, or the currency ceases to be severely hyperinflationary, an entity would be able to start applying IFRSs to subsequent transactions.

BC63FA The Board noted that IFRSs did not provide sufficient guidance in these circumstances. The Board therefore decided to amend IFRS 1 to provide timely guidance on how an entity can resume presenting IFRS financial statements, by presenting an opening IFRS statement of financial position on or after the functional currency normalisation date. The Board believed that allowing an entity to apply the exemption when presenting an opening IFRS statement of financial position after, and not just on, the functional currency normalisation date, would address practical concerns that may arise if the functional currency normalisation date and the entity's date of transition to IFRSs are different.

BC63FB The Board noted that this amendment would also be available to entities that were emerging from a period of severe hyperinflation, but that had not applied IFRSs in the past. This would provide such entities with guidance as to how to measure their assets and liabilities held during the period of severe hyperinflation.

BC63FC The Board decided that an entity emerging from a period of severe hyperinflation may elect to measure all or some of its assets and liabilities at fair value. That fair value could then be used as the deemed cost in its opening IFRS statement of financial position. The Board believed that this approach would expand the scope of the deemed cost exemptions in IFRS 1 to enable them to be applied in these specific circumstances. However, because severe hyperinflation is a very specific set of circumstances, the Board wanted to ensure that the fair value measurement option was only applied to all or some of those assets and liabilities that were held prior to the functional currency normalisation date, and not to other assets and liabilities held by the entity at the time it transitioned to IFRSs.

BC63FD The Board decided that any adjustments arising on electing to measure assets and liabilities at fair value in the opening IFRS statement of financial position arise from events and transactions before the date of transition to IFRSs. Consequently, these adjustments should be accounted for in accordance with paragraph 11 of IFRS 1, and an entity should recognise those adjustments directly in retained earnings (or, if appropriate, in another category of equity) at the date of transition to IFRSs.

BC63FE The Board observed that entities are required to apply paragraph 21 of IFRS 1 and prepare and present comparative information in accordance with IFRSs. The Board noted that preparation of information in accordance with IFRSs for periods prior to the functional currency normalisation date may not be possible, hence the exemption refers to a date of transition on or after the functional currency normalisation date. This may lead to a comparative period of less than 12 months. The Board identified that entities should consider whether disclosure of non-IFRS comparative information and historical summaries, in accordance with paragraph 22 of IFRS 1, would provide useful information to users of financial statements. The Board also noted that an entity should clearly explain the transition to IFRSs in accordance with paragraphs 23-28.

Appendix C – Draft wording of the final amendment as compared to the exposure draft *Severe Hyperinflation* (Proposed amendment to IFRS 1)

C1 The staff proposes draft wording for the final amendment. This Appendix shows the proposed draft wording **as compared to the exposure draft *Severe Hyperinflation* (proposed amendment to IFRS 1).** Proposed changes from the exposure draft are shown as follows: new text is underlined and deleted text is struck through.

C2 All Board edits/comments are appreciated in preparation for the final amendment balloting.

Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

After paragraph 31B a heading and paragraph 31C are added.

Presentation and disclosure

Use of deemed cost after severe hyperinflation

31C If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening IFRS statement of financial position because of severe hyperinflation (see paragraphs D27–D3~~0~~1), the entity's first IFRS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that has both of the following characteristics:

(c) a reliable general price index is not available to all entities with transactions and balances in the currency.

(d) exchangeability between the currency and a relatively stable foreign currency does not exist.

Paragraph 39H is added.

Effective date

39H *Severe Hyperinflation* (Amendment to IFRS 1), issued in ~~[date]~~ December 2010, amended paragraph D1 and added paragraphs 31C and D27–D3~~0~~1. An entity shall apply those amendments for annual periods beginning on or after ~~[date to be inserted after exposure]~~ 1 July 2011. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Paragraph D1 is amended (new text is underlined and deleted text is struck through) and a heading and paragraphs D27–D3~~0~~1 are added.

Appendix D

Exemptions from other IFRSs

D1 An entity may elect to use one or more of the following exemptions:

(a) …

(o) transfers of assets from customers (paragraph D24);

(p) extinguishing financial liabilities with equity instruments (paragraph D25); and

(q) severe hyperinflation (paragraphs D27–D30).

An entity shall not apply these exemptions by analogy to other items.

Severe hyperinflation

D27 If a first-time adopter has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of transition to IFRSs.

D28 The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

(c) a reliable general price index is not available to all entities with transactions and balances in the currency.

(d) exchangeability between the currency and a relatively stable foreign currency does not exist.

D29 The functional currency of an entity ceases to be subject to severe hyperinflation on the functional currency normalisation date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph D28, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.

D30 When an entity's date of transition to IFRSs is on, or after, the functional currency normalisation date, the entity may elect to measure assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to IFRSs. The entity may use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

D31 When the functional currency normalisation date falls within the comparative period, the comparative period may be less than 12 months, provided that complete information is provided for the shorter period.

Amendment to the Basis for Conclusions on IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph BC30 is amended (new text is underlined and deleted text is struck through), and a heading and paragraphs BC63F–BC63FE are added.

BC30 An entity may elect to use one or more of the following exemptions:

(a) …

(k) lease (paragraph BC63D–BC63DB); and

(l) borrowing costs (paragraph BC63E); and

(m) severe hyperinflation (paragraphs BC63F–BC63FE).

An entity shall not apply these exemptions by analogy to other items.

~~Introduction~~ Severe hyperinflation

BC~~1~~63F In 2010, ~~the IFRS Interpretations Committee received a request~~ the Board was asked to clarify how an entity should resume presenting financial statements in accordance with IFRSs after a period of severe hyperinflation, during which ~~it~~ the entity had been unable to comply with IAS 29 *Financial Reporting in Hyperinflationary Economies*. ~~BC2 The request identified an entity whose functional currency is the currency of a hyperinflationary~~

~~economy and which has applied IAS 29. However, the~~ An entity ~~is~~would be unable~~, for a period of time,~~ to comply with IAS 29 ~~and prepare financial statements in accordance with IFRSs because of severe hyperinflation. This is because~~if a reliable general price index is not available to all entities with that same functional currency, and exchangeability between the currency and a relatively stable foreign currency does not exist. However, once ~~T~~the functional currency ~~of the entity then~~ changes ~~at a later date to another currency, which is not the currency of a hyperinflationary economy. The change of functional currency~~ to a non-hyperinflationary currency, or the currency ceases to be severely hyperinflationary, ~~enables the~~, an entity would be able to start applying IFRSs to subsequent transactions.

BC63FA The Board noted that IFRSs did not provide sufficient guidance for these circumstances. The Board therefore decided to amend IFRS 1 to provide timely guidance on how an entity can resume presenting IFRS financial statements by presenting an opening IFRS statement of financial position on or after the functional currency normalisation date. The Board believed that allowing an entity to apply the exemption when presenting an opening IFRS statement of financial position after, and not just on, the functional currency normalisation date would address practical concerns that may arise if the functional currency normalisation date and the entity's date of transition to IFRSs are different.

~~BC3~~ ~~The request asked how such an entity should resume preparing financial statements under IFRSs when the entity's functional currency ceases to be the currency of a severely hyperinflationary economy.~~

~~Decision to amend IFRS 1~~ *~~First-time Adoption of International Financial Reporting Standards~~*

~~BC4~~ ~~The Committee observed that an entity with the functional currency of a hyperinflationary economy cannot comply with IFRSs if a reliable general price index is not available, because of the requirements in paragraph 37 of IAS 29 to restate financial statements using a general price index. Furthermore, the absence of exchangeability between an entity's functional currency and a relatively stable currency eliminates a potential alternative to using a general price index by calculating an estimate based on the movements in exchange rates in accordance with paragraph 17 of IAS 29. The Committee described a functional currency in the absence of a reliable general price index and exchangeability with a relatively stable currency as being subject to severe hyperinflation.~~

~~BC5~~ ~~In the request the entity stopped preparing financial statements in accordance with IFRSs because it could not comply with IAS 29 and~~

~~could not present reliable financial information in its financial statements. The Committee concluded that when~~

~~(a) the entity is again able to apply IAS 29 because the characteristics of severe hyperinflation (the lack of a reliable general price index and absence of exchangeability of the functional currency with a relatively stable currency) are no longer present, or~~

~~(b) the entity's functional currency changes to one that is not hyperinflationary,~~

~~and the entity becomes able again to present reliable financial information in accordance with IFRSs, the entity meets the criteria to be a first-time adopter. However, Tthe Committee Board noted that IFRSs do did not provide sufficient guidance on how an entity should resume presenting financial statements in accordance with IFRSs when the functional currency of the entity ceases to be subject to severe hyperinflation. Specifically, the Committee noted that because of the effects of severe hyperinflation an entity cannot comply with all of the requirements in IFRS 1 to prepare and present an opening IFRS statement of financial position. Consequently, the Committee recommended that the Board should amend IFRSs to address this issue.~~

~~BC6~~ ~~The Board agreed with the Committee that current IFRSs do not provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when its functional currency was subject to severe hyperinflation. Consequently, the Board proposes to amend IFRSs to provide guidance. The Board decided to address only situations when reliable measurement in accordance with IFRSs is not possible as a result of severe hyperinflation, rather than consider other these circumstances when reliable measurement might not be possible.~~

~~BC7~~ ~~The Board considered whether it was appropriatetherefore decided for IAS 29 to address this issue. The Board noted that an amendment to IAS 29 would reinforce the intention that the amendment should be very narrow and be limited to the situation where an entity meets the scope of IAS 29, but cannot apply the measurement requirements of that Standard because of severe hyperinflation. However, in considering the amendment, the Board was also conscious of other concerns that interested parties have with applying the current scope of IAS 29 and with proposals to change IAS 29 only to address this issue of severe hyperinflation.~~

~~BC8~~ ~~The Board also noted that an amendment to IAS 29 could be applied by an entity that is able to prepare and present financial statements in accordance with IFRSs, despite being affected by severe hyperinflation. Specifically, this would include entities with an interest in an entity that emerges from a severely hyperinflationary economy, for example a parent entity with a subsidiary that was affected by severe~~

~~hyperinflation, and not just entities that directly suffered from severe hyperinflation. The Board identified that these entities would be unable to apply guidance in IFRS 1 if they had continued to prepare and present financial statements in accordance with IFRSs during the period that the entity in which they held an interest was subject to severe hyperinflation. However, the Board understood from interested parties that this is unlikely to be a significant or widespread issue for entities with such interests because they have generally been able to find appropriate existing guidance in IFRSs.~~

~~BC9~~ ~~Consequently, the Board proposes to amend IFRS 1. The Board observed that this would enable it to provide timely guidance to those entities that were unable, for a period of time, to prepare financial statements in accordance with IFRSs because of severe hyperinflation.~~

~~BC10~~ ~~The proposed amendment does not provide guidance for entities affected by severe hyperinflation that are not within the scope of IFRS 1. The Board did not make any decisions on how an entity should account for an interest in an entity that was subject to severe hyperinflation in the consolidated financial statements of parents, venturers and investors. This is because entities have generally been able to find sufficient guidance in IFRSs.~~

~~BC11~~ ~~The Board proposes to amend IFRS 1 to provide guidance on how an entity can resume preparing presenting IFRS financial statements, by presenting an opening IFRS statement of financial position on, or after, the functional currency normalisation date. The Board defined the functional currency normalisation date as the date when the entity's functional currency ceases to suffer from severe hyperinflation. This is the event that created the need for additional guidance. The Board identified that the characteristics of severe hyperinflation make it challenging to provide guidance that would result in the presentation of reliable financial information that could be considered IFRS-compliant during the period of severe hyperinflation. However, the Board believesd that allowing an entity to apply the exemption when presenting an opening IFRS statement of financial position after, and not just on, the functional currency normalisation date, addresseswould address practical concerns that may arise if the functional currency normalisation date and anthe entity's date of transition to IFRSs are different.~~

~~Accounting at the functional currency normalization date~~

<u>BC63FB</u> <u>The Board noted that this amendment would also be available to entities that were emerging from a period of severe hyperinflation, but that had not applied IFRSs in the past. This would provide such entities with</u>

guidance as to how to measure their assets and liabilities held during the period of severe hyperinflation.

BC~~12~~63FC The Board ~~proposes~~decided that an entity ~~that has been subject to~~emerging from a period of severe hyperinflation may elect to measure all or some of its assets and liabilities at fair value~~ and use that~~. That fair value could then be used as the deemed cost in its opening IFRS statement of financial position. The Board ~~believes~~believed that this approach ~~expands~~would expand the scope of the deemed cost exemptions ~~that currently exist~~ in IFRS 1 to enable them to be applied in these specific circumstances. However, because severe hyperinflation~~. The~~ is a very specific set of circumstances, the Board ~~thinks~~wanted to ensure that ~~this provides a practical solution to providing guidance on how an~~the fair value measurement option was only applied to all or some of those assets and liabilities that were held prior to the functional currency normalisation date, and not to all assets and liabilities held by the entity ~~can resume presenting financial statements in accordance with~~at the time it transitioned to IFRSs~~, and consequently apply IFRS 1, after being subject to severe hyperinflation~~.

BC6~~1~~3FD The Board ~~believes that an entity should not be required to apply the exemption, but instead may elect to apply it when measuring assets and liabilities in the opening IFRS statement of financial position. This is because, by applying other guidance in IFRS 1 to measure specific assets and liabilities, an entity may provide users with more useful information, for example when measuring assets and liabilities that were not affected by severe hyperinflation. BC14 The Board considers~~decided that any adjustments arising on electing to measure assets and liabilities at fair value in the opening IFRS statement of financial position arise from events and transactions before the date of transition to IFRSs. Consequently, ~~they~~ these adjustments should be accounted for in accordance with paragraph 11 of IFRS 1, and an entity should recognise those adjustments directly in retained earnings (or, if appropriate, in another category of equity) at the date of transition to IFRSs~~Hence, the Board does not propose further guidance on the accounting for those adjustments~~.

BC~~15~~63FE The Board observed that entities are required to apply paragraph 21 of IFRS 1 and prepare and present comparative information in accordance with IFRSs. The Board noted that preparation of information in accordance with IFRSs for periods ~~before~~ prior to the functional currency normalisation date may not be possible, hence the exemption refers to a date of transition on or after the functional currency normalisation date. This may lead to a comparative period of less than 12 months. ~~However, because of the effects of severe hyperinflation in periods before the date of transition to IFRSs, t~~The Board identified that entities should consider whether disclosure of non-IFRS comparative information and historical summaries, in accordance with paragraph 22 of IFRS 1, would provide useful information to users of ~~the~~financial statements. The Board also noted that an entity should clearly explain the transition to IFRSs in accordance with paragraphs 23-28.