Project	**Items for Continuing Consideration**
Topic	**IAS 29 *Financial Reporting in Hyperinflationary Economies* – Reporting in accordance with IFRSs after a period of chronic hyperinflation - Cover note**

Structure of this paper

1. The purpose of this paper is to provide an overview of the staff analysis and recommendations relating to a request to clarify how an entity should resume presenting financial statements in accordance with IFRSs after a period of chronic hyperinflation, during which it was unable to comply with IAS 29 *Financial Reporting in Hyperinflationary Economies*.

2. In May 2010, the Committee tentatively concluded IAS 29 should be amended, and requested the staff present at the July meeting the proposed draft wording for this amendment, together with an analysis of how the proposed draft wording addresses other potential issues in relation to the request.

3. Consequently, the staff have prepared two papers for discussion at the July 2010 Committee meeting:

   (a) **Agenda paper 12B** which addresses the main issue relating to the request received. This agenda paper provides:

      (i) an overall introduction and background information relating to the issue;

(ii) staff analysis and recommendations relating to application of a proposed amendment when preparing and presenting the separate financial statements of an entity with a functional currency that is no longer the currency of a hyperinflationary economy; and

(iii) proposed wording for the tentative agenda decision and amendment to IAS 29.

(b) **Agenda paper 12C** which addresses the main issue relating to the request received. This agenda paper provides:

(i) staff analysis and recommendations relating to application of the proposed amendment when preparing and presenting the consolidated IFRS financial statements of a parent with an interest in an entity that ceases to have a functional currency that is the currency of a chronic hyperinflationary economy.

(ii) additional support for the proposed amendment that is recommended in agenda paper 12B.

Project	**Items for Continuing Consideration**
Topic	**IAS 29 *Financial Reporting in Hyperinflationary Economies* – Reporting in accordance with IFRSs after a period of chronic hyperinflation**

Purpose of this paper

1. The purpose of this paper is to document the staff analysis and recommendations relating to a request to clarify how an entity should resume presenting financial statements in accordance with IFRSs after a period of chronic hyperinflation when it was unable to comply with IAS 29 *Financial Reporting in Hyperinflationary Economies*.

2. In May 2010, the Committee tentatively concluded that IAS 29 should be amended, and requested the staff present at the July meeting the proposed draft wording for this amendment, and an analysis of how the proposed draft wording addresses other potential issues in relation to the request.

3. In response, this paper:

   (a) provides background information on this issue;

   (b) provides a staff analysis on this issue within the context of IFRSs;

   (c) provides preliminary assessment under the criteria for inclusion in the Committee's agenda or in the *Annual Improvements* process;

   (d) makes a staff recommendation on the tentative agenda decision and on the draft wording for the proposed amendment to IAS 29; and

   (e) asks the Committee whether they agree with the staff recommendation.

Background Information

4. The Committee received a request for clarification on how an entity should resume presenting financial statements in accordance with IFRSs after a period when it did not comply with IAS 29.

5. The request identifies an entity whose functional currency is the currency of a hyperinflationary economy.

6. The entity is unable to comply with IAS 29 because the general price index relating to the entity's functional currency is unavailable, and the functional currency lacks exchangeability; that is, the entity's functional currency is suffering from chronic hyperinflation.

7. The entity's functional currency then changes to a non hyperinflationary currency.

8. At the May 2010 Committee meeting[1], the Committee noted that current IFRSs do not provide guidance relating to this issue, and that it is not possible to prepare financial statements in accordance with IFRSs during a period of chronic hyperinflation.

9. As noted in the May 2010 IFRIC Update:

> The Committee reached a tentative conclusion that IAS 29 should be amended to provide guidance on how an entity shall prepare and present an opening statement of financial position at the date when the entity's functional currency ceases to be a currency that is suffering from chronic hyperinflation. This guidance, which is different to the two approaches proposed in the request, would require the entity to:
>
> - measure assets and liabilities on a fair value as deemed cost basis at that date.
> - apply all applicable IFRSs prospectively from that date.
> - be deemed a new accounting entity from that date. Consequently, there is no comparative information for the new accounting entity, for periods before that date.

[1] See Agenda Paper 12 of the May IFRS Interpretations Committee Meeting : http://www.iasb.org/Meetings/IFRIC+Meeting+6+May+2010.htm

10. The Committee requested the staff to present the proposed draft wording for this amendment at the July 2010 Committee meeting, together with an analysis of how the proposed draft wording addresses other potential issues identified by the Committee in relation to the request.

Staff Analysis

Overview of the proposed approach suggested in the May Committee meeting

11. In May 2010, in response to the discussion held by the Committee, the staff identified an approach to this issue, which, as noted in the May 2010 IFRIC Update, was different from the original proposal provided in the staff agenda paper.

12. As a result, the Committee requested the staff to perform additional analysis on this revised approach, and to provide an updated wording for the proposed amendment to IAS 29.

13. This revised approach is summarised as follows.

Definition of chronic hyperinflation

14. This amendment is to be applied when the functional currency of an entity ceases to be the currency of a chronic hyperinflationary economy.

15. Consequently the proposed amendment should define the characteristics of 'chronic hyperinflation'.

Functional currency ceases to suffer from chronic hyperinflation

16. This amendment should only be applied when the entity's functional currency ceases to suffer from chronic hyperinflation.

17. Consequently, the proposed amendment should describe the circumstances under which the entity's functional currency may cease to suffer from chronic hyperinflation.

New accounting entity

18. At the date when an entity emerges from a period when its functional currency suffered from chronic hyperinflation, the entity is deemed to be a new accounting entity.

19. As a result, the proposed amendment should provide the rationale for why the entity is deemed a new accounting entity at this date.

Presentation of opening statement of financial position

20. In applying the proposed amendment, the entity is required to prepare and present an opening statement of financial position on the date that the functional currency ceases to suffer from chronic hyperinflation.

21. Consequently, the proposed amendment should provide guidance on how this opening statement of financial position should be prepared, and, specifically, how assets, liabilities and equity should be recognised and measured.

Prospective application

22. The proposed amendment should also provide guidance on how the new accounting entity should apply IFRSs on a prospective basis after presenting the opening statement of financial position.

The standard that should be amended

23. The revised approach continues to propose that the amendment should be made to IAS 29.

Disclosures

24. The revised approach will also address certain disclosures that are required of an entity that applies the proposed amendment.

25. This will include considerations relating to the presentation of comparative financial information.

Definition of chronic hyperinflation

26. The first part of the proposed scope of the revised approach would apply to entities with a previous functional currency that is the currency of a chronic hyperinflationary economy.

27. The staff propose two characteristics that **must both** exist for a currency to be considered subject to chronic hyperinflation:

    (a) A reliable general price index is unavailable to all entities that report in that functional currency.

    (b) Exchangeability between the functional currency and other currencies no longer exists.

28. When both these characteristics exist, although the definition of functional currency in paragraph 8 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* as the ‘currency of the primary economic environment in which the entity operates’ is met, the staff believe that, in substance, this currency is no longer functional because of the chronic hyperinflation.

Functional currency ceases to suffer from chronic hyperinflation

29. The second part of the proposed scope of the revised approach would apply to entities that have a functional currency that **ceases** to be the currency of a chronic hyperinflationary economy.

30. The staff have identified two ways in which an entity may cease to have a functional currency that is the currency of a chronic hyperinflationary economy:

    (a) An entity may be required, in accordance with IAS 21, to change its functional currency to a new currency that is not subject to chronic hyperinflation.

        This new functional currency may, or may not, be the currency of a hyperinflationary economy.

(b) The current functional currency of the entity no longer suffers from chronic hyperinflationary.

For example, a reliable price index may become available, or the currency may become exchangeable again.

31. The staff believe that both ways of emerging from chronic hyperinflation should be within the scope of the proposed amendment. This is because the same accounting issues arise within the current IFRSs in both situations.

New accounting entity

32. On the date that the accounting entity meets both the scope criteria above, it is deemed a new accounting entity.

33. This is because the entity:

(a) has no reliable historical accounting records that is capable of complying with IFRSs; and

(b) is similar to a newly-formed entity because it has no comparative financial information that can be presented.

34. A newly-formed entity does not present comparative financial information in its first IFRS financial statements, because it has no comparative period.

35. Consequently, an entity emerging from chronic hyperinflation, and that is deemed to be a new accounting entity, is not considered to have any comparative information that is required to be presented.

36. This absence of comparative information does not prevent the entity's financial statement from complying with IFRSs when an entity emerges from chronic hyperinflation.

Presentation of opening statement of financial position

37. On the date that the entity ceases to have a functional currency that is the currency of a chronic hyperinflationary economy, and is deemed to be a new accounting entity, the entity is required to prepare and present an opening IFRS statement of financial position.

38. The staff believe that the amendment should provide guidance on how the opening statement of financial position should be prepared and presented.

Assets and liabilities recognition and measurement principle

39. The staff believe the opening statement of financial position should reflect the recognition of assets and liabilities in accordance with other IFRSs.

40. These assets and liabilities should be measured based on the principle of fair value as the deemed cost on the date that the entity meets both of the scope criteria.

41. The staff believe that this is consistent with the notion of the entity being a new accounting entity. The staff also think that it provides the most practical approach to the generation of an opening statement of financial position. The use of a historical cost measurement approach is unlikely to be possible, because of the impact of chronic hyperinflation.

42. However, the staff have identified some potential exceptions to the recognition principle and the measurement principle that assets and liabilities should be measured at fair value. Many of these potential exceptions are consistent with those identified in paragraphs 24-31 of IFRS 3 *Business Combinations*:

    (a) Goodwill

    Some believe that goodwill in the opening statement of financial position should be zero at the date when an entity's functional currency ceases to be the currency of chronic hyperinflationary economy.

    This is because of a lack of reliable information that would support a positive carrying amount, and also because of a concern that internally-generated goodwill may be recognised.

The staff agree, and they do not believe that goodwill should be recognised.

(b) Intangible assets

Some think that an entity should be restricted to only recognising in the opening statement of financial position those intangible assets that it would have previously recognised in accordance with IFRSs.

They are concerned that it may not be appropriate for an entity to recognise new intangible assets (eg a lease contract that is on terms more favourable than the current market) merely because the entity has emerged from chronic hyperinflation.

The staff do not think that any additional specific guidance should be provided on the recognition of intangible assets (other than goodwill) in the opening statement of financial position.

This is because IFRS 3 is not applied. The entity should record intangible assets only if they meet the asset recognition criteria in IAS 38 *Intangible Assets*.

(c) Income taxes

The staff believe that a deferred tax asset or liability should be recognised and measured in accordance with IAS 12 *Income Taxes* in the opening statement of financial position.

(d) Employee benefits

The staff believe that a liability related to employee benefit arrangements in the opening statement of financial position should be recognised and measured in accordance with IAS 19 *Employee benefits*.

(e) Assets held for sale

The staff believe that a non-current asset that is classified as held for sale should be measured in the opening statement of financial position at fair value, less costs to sell, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

(f) Share-based payment

Share-based payment awards should be measured in accordance with the method in IFRS 2 *Share-based payment*.

(g) Financial assets and financial liabilities not previously measured at fair value

Financial assets and financial liabilities that were previously recognised, but not measured at fair value, (eg those measured on an amortised costs basis) should be measured at fair value in the opening statement of financial position. The effective interest rate relating to these financial assets and liabilities should be recalculated on the date of the opening statement of financial position.

Equity recognition and measurement principle

43. The staff believe that the opening statement of financial position should reflect the measurement principle that equity is a residual interest, in conformity with the definition established in the *Framework.*

44. As a result, total equity is calculated as the difference between the initial measurement of total assets and total liabilities recognised at the date when the entity's functional currency ceases to be the currency of a chronic hyperinflationary economy.

45. The staff believe that after separately identifying equity instruments, including share capital as described below, the remaining amount of equity should be presented as a single amount in the opening statement of financial position, separately identified within the equity components of the entity.

46. This single amount would be labelled as a chronic hyperinflation reserve. The chronic hyperinflation reserve component of equity would be 'frozen' at the date of initial recognition, and would not be expected to be subject to subsequent measurement adjustments.

47. However, the staff have identified some additional considerations relating to the proposed presentation of equity:

(a) Retained earnings

The staff believe that retained earnings should be set to be zero in the opening statement of financial position, because the entity is deemed to be a new accounting entity.

(b) Other reserves

As in the case of retained earnings, the staff believe that other reserves (eg cumulative translation differences and revaluation reserves) should be set to be zero in the opening statement of financial position, because the entity is deemed to be a new accounting entity.

(c) Legal and statutory reserves

The staff believe that the legal and statutory reserves, (e.g. share capital and share premium components of equity) should be presented in accordance with the entity's local statutory requirements.

Consequently, any amounts of legal and statutory reserves recognised should be presented separately in equity from the single amount labelled as a chronic hyperinflation reserve.

(d) Other equity instruments

Some believe that specific measurement guidance should also be provided for other components of equity (eg other equity instruments, or NCI).

However, the staff do not believe, on the basis of the scope and key objectives of the amendment, that specific guidance on other components of equity should be provided.

Prospective application

48. The staff believe that an entity is regarded as a new accounting entity when it ceases to have a functional currency that is the currency of a chronic hyperinflationary economy.

49. On this date, this new accounting entity is required to prepare a statement of financial position in accordance with IFRSs.

50. However, certain questions arise relating to how this statement of financial position should be prepared and presented. These include whether the entity should:

    (a) re-designate hedging relationships and financial instruments at fair value through profit or loss; and

    (b) apply new accounting policies when preparing the opening statement of financial position.

Re-designation of hedging relationships and financial instruments as fair value through profit or loss;

51. In preparing and presenting its opening statement of financial position, an entity will need to consider whether it should re-designate hedging relationships and financial instruments at fair value through profit or loss.

52. The alternative would be that the statement of financial position should reflect any designations made before the identification of a new accounting entity.

53. The staff think that the entity should re-designate hedging relationships, and financial instruments at fair value through profit or loss in the opening statement of financial position, in accordance with IAS 39: *Financial Instruments Classification and Measurement* and IFRS 9: *Financial Instruments* because this:

    (a) is consistent with the notion that a new accounting entity has been created. As a result, any previous designations are irrelevant to these financial statements.

    (b) provides more useful information to users of the entity's financial statements, specifically because no comparative information is provided.

    (c) is consistent with the guidance in IFRS 3.15

        15 At the acquisition date, ***the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as***

> ***necessary to apply other IFRSs subsequently***. The acquirer shall make those classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date. (emphasis added)

(d) is unlikely that abuse of the ability to re-designate would be significant, because of the narrow scope of the proposed amendment.

(e) is consistent with the change in the measurement basis of hedged items which are recognised at fair value as deemed cost. Consequently, the effectiveness of any previous hedging relationships would need to be specifically re-assessed.

Accounting policy

54. In preparing and presenting its opening statement of financial position, an entity will need to consider whether it would be appropriate to follow the guidance in paragraphs 7, 8 and 11 of IFRS 1 *First-time Adoption of International Financial Reporting Standard*:

> 7 An entity ***shall use the same accounting policies in its opening IFRS statement of financial position and throughout all periods*** presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the end of its first IFRS reporting period, except as specified in paragraphs 13–19 and Appendices B–E.
>
> 8 An entity ***shall not apply different versions of IFRSs that were effective at earlier dates***. An entity may apply a new IFRS that is not yet mandatory if that IFRS permits early application.
>
> 11 The accounting policies that an entity uses in its opening IFRS statement of financial position may differ from those that it used for the same date using its previous GAAP***. The resulting adjustments arise from events and transactions before the date of transition to IFRSs***. Therefore***, an entity shall recognise those adjustments directly in retained earnings*** (or, if appropriate, another category of equity) at the date of transition to IFRSs. (emphasis added)

55. Some are concerned about whether it is appropriate for an entity to adopt a new accounting policy in the opening statement of financial position, regardless of the accounting policy that it had applied before the identification of a new accounting entity.

56. However, the staff believe that an entity should be able to apply a new set of accounting policies because:

    (a) it is consistent with the notion that a new accounting entity has been created. As a result, any previous accounting policies are irrelevant to these financial statements.

    (b) the accounting entity will not be providing IFRS-compliant comparative information.

    Consequently, an entity can apply any accounting policy if it is appropriate to provide a faithful presentation, because there are no problems of comparability.

The standard to be amended

57. The staff think that this guidance could be reflected by an amendment to:

    (a) IAS 29;

    (b) IAS 21; or

    (c) IFRS 1.

IAS 29 should be amended

58. Some believe that IAS 29 should be amended.

59. Supporters of this approach believe it recognises that the scope of the amendment applies to situations that:

    (a) are narrow and specifically defined;

    (b) only exist when an entity that previously met the scope criteria of IAS 29; and

    (c) may exist in the preparation and presentation of financial statements of the parent of an entity that meets the scope criteria of the proposed amendment.

IAS 21 should be amended

60. Others believe that IAS 21 should be amended.

61. They note that IAS 21, in its paragraphs 35 to 37, deals with the situation where an entity changes its functional currency. They believe that the proposed amendment is consistent with this guidance.

62. However, the staff believe that an entity does not always change its functional currency when its functional currency ceases to suffer from chronic hyperinflation. For example, an entity's functional currency may cease to suffer from chronic hyperinflation because a reliable price index may become available, or the currency may become exchangeable again.

IFRS 1 should be amended

63. A third view is that IFRS 1 should be amended.

64. Proponents of this view believe that an entity ceasing to have a functional currency that is the currency of a chronic hyperinflationary economy, and becoming able once more to prepare and present financial statements in accordance with IFRSs, should apply IFRS 1.

65. The entity meets the current scope of IFRS 1, because the entity's most recent previous financial statements do not contain an explicit and unreserved statement that they complied with IFRSs.

66. However, the staff believe that making an amendment to IFRS 1 would not be appropriate, because:

    (a) the amendment relates to a very specific situation relating to a hyperinflationary economy;

    (b) it may encourage use of the guidance by analogy (for example in a bankruptcy situation); and

    (c) additional guidance would be needed to address the preparation and presentation of financial statements of a parent of an entity that ceases to have a functional currency that is the currency of a chronic hyperinflationary economy.

Staff conclusion

67. The staff believe that IAS 29 should be amended.

68. Consideration should then be given as to whether a consequential amendment is required to IFRS 1 to clarify that, in this situation, the entity should apply the amended guidance in IAS 29, not IFRS 1.

69. The staff believe that this consequential amendment is required to provide clarity to preparers of financial statements of the approach to be applied in this situation.

Disclosures

Comparative information

70. IAS 1.38 requires an entity to disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements:

> Except when IFRSs permit or require otherwise, an entity ***shall disclose comparative information*** in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. (emphasis added).

71. However, because the entity is deemed to be a new accounting entity after ceasing to have a functional currency that suffers from chronic hyperinflation, it is not required to present comparative information, because there is none to present.

72. However, IAS 1.38 does provide the entity with the opportunity to include comparative information **<u>when it is relevant</u>** to an understanding of the current period's financial statements. For example, some entities may consider that it would be useful to present certain financial information relating to prior reporting periods.

73. Consequently, the staff believe that the proposed amendment should state that the entity:

    (a) should not present comparative financial information; and

(b) any comparative financial information presented by the entity because it is deemed relevant to an understanding of the current period's financial statements should be:

   (i) clearly identified as not prepared in accordance with IFRSs; and

   (ii) disclosed separately from the entity's IFRS-compliant financial information.

Explanation of chronic hyperinflation

74. The staff believe that an entity that emerges from a period when its functional currency was the currency of a chronic hyperinflationary economy should apply all disclosure requirement in IFRSs, including the principle in paragraph 1.112 (c) of IAS 1 *Presentation of Financial Statements* that states that an entity shall:

> provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

75. In addition, the staff believe that when an entity ceases to have a functional currency that suffers from chronic hyperinflation, this is a significant event that requires additional disclosure.

76. The staff think these additional disclosures should:

(a) state that the entity is a new accounting entity and explain the relationship with the former entity;

(b) provide an explanation of how, and why, an entity ceases to have a functional currency that is the currency of a chronic hyperinflationary economy; and

(c) explain the basis for recognising and measuring assets, liabilities and equity in the opening statement of financial position.

Period before the entity ceases to have a functional currency that is the currency of a chronic hyperinflationary economy

77. Although the entity is deemed to be a new accounting entity after ceasing to have a functional currency that is the currency of a chronic hyperinflationary

economy, some believe that additional disclosures should be required relating to the period during which the functional currency suffered from chronic hyperinflation.

78. However, the staff do not believe that additional disclosure requirements relating to this period should be required, because they would be:

    (a) inconsistent with the notion that a new accounting entity has been created;

    (b) unreliable, because the entity's accounting information when the functional currency was the currency of a chronic hyperinflationary economy is not reliable, and does not necessarily comply with IFRSs; and

    (c) unlikely to provide information that is useful to a wide range of users because of the different information that entities may be able to present.

79. As a result, a requirement to provide accounting information relating to previous financial reporting periods may lead to the presentation of misleading financial information.

80. Consequently, the staff do not believe that disclosures should be required relating to accounting information in previous financial reporting periods.

81. However, as noted in paragraph 72 above, comparative information that is not in accordance with IFRSs may be disclosed, on condition that it is clearly and separately identified in the new accounting entity's financial statements.

Staff recommendation

Agenda criteria assessment for the Committee

82. The staff's preliminary assessment of the agenda criteria is as follows:

    (a) The issue is widespread and has practical relevance.

    Yes.

    The staff think that the issue is widespread in certain hyperinflationary economies, and that it has practical relevance.

(b) *The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The committee will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.*

Yes.

The staff believe that current IFRSs do not specifically address this issue. As a result, divergence in practice is emerging.

(c) *Financial reporting would be improved through elimination of the diverse reporting methods.*

Yes.

Financial reporting would be improved through the elimination of these diverse reporting methods.

(d) *The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.*

No.

The staff believe that the most efficient way of resolving the issue would be through an amendment to current IFRSs, and not through the interpretation process.

This is because the staff think that the issue identifies a specific gap that exists in current IFRSs.

(e) *It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.*

Yes. It is probable that the Committee would be able to reach a consensus on these issues on a timely basis.

(f) *If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the committee requires to complete its due process.*

Not applicable.

The IASB does not have any current or planned projects on its agenda that are expected to address these issues.

83. Based on this assessment of the agenda criteria, the staff recommend that the Committee should not add the issue to its interpretations agenda, but should recommend that the Board should amend the applicable IFRSs.

Annual improvement criteria assessment

Assessment against currently-used criteria

84. The existing criteria for inclusion in the 2009-2011 *Annual Improvements Project* (*AIP*) cycle are that the proposed amendment is <u>non-urgent</u> and <u>necessary</u>.

85. The staff believe that this is a necessary amendment to IFRSs.

86. However, the staff do not think that the amendment meets the existing criteria for inclusion in the 2009-2011 *AIP*. This is because the proposed amendment is:

    (a) introducing a new principle that does not currently exist in IFRSs; and

    (b) urgent.

    Many entities presenting financial statements in the hyperinflationary economy that was identified in the request met both of the proposed scope criteria in the first quarter of 2009.

    An amendment made as part of the 2009-2011 *AIP* would not be issued until the second quarter of 2011, with an expected effective date of 1 January 2012. This date of issue and effective date would be too late to be useful to the hyperinflationary economy identified in the request.

87. Consequently, the staff propose that the Committee should recommend that the Board should make a separate amendment to IAS 29, which could be issued on a more timely basis, to address this issue.

Staff conclusion

Effective date and transition

88. The staff think that an entity should apply the amendments on the date that both of the proposed scope criteria are met.

89. The amendments should be applied on a prospective basis at this date.

90. Prospective application is consistent with requirement of IAS 21.37, which requires an entity to apply translation procedures prospectively when it changes its functional currency.

91. Additionally, an entity would be unable to apply the amendments retrospectively, because it could not obtain a reliable exchange rate before the date of the change in functional currency.

92. The staff propose that an entity shall apply the amendments for annual periods beginning on or after 1 July 2011. Earlier application shall be permitted, which is expected to be useful to the entities operating in the hyperinflationary economy identified in the request. If an entity applies the amendment for an earlier period it shall disclose that fact.

93. The urgency of the proposed amendment is highlighted in the timeline example included in Appendix D of this agenda paper.

94. The staff propose the following tentative timeline to finalising this amendment in order to maximise its usefulness to constituents:

    (a) the Committee recommend to the July 2010 meeting that the Board should consider the proposed amendment to IAS 29;

    (b) at the July 2010 Board meeting, the Board deliberate the amendment;

    (c) an Exposure Draft of the amendment is published in September 2010 with a 60-day comment period;

    (d) comments received on the Exposure Draft are redeliberated in the December 2010 Board meeting; and

(e) the amendment is issued in January 2011, with an effective date of 1 July 2011.

95. The staff believe that this timeline would allow calendar year entities in Zimbabwe to apply the amendment in their 31 December 2010 financial statements.

Drafting

96. The proposed wording for the tentative agenda decision is set out in Appendix A. The proposed wording for the amendments to IAS 29, and for the Basis for Conclusions, are in Appendix B. The proposed consequential amendment to IFRS 1 is in Appendix C

Effective date and transition

Question 1 for the Committee
1. Does the Committee agree with the staff's recommendation that the Committee should recommend that the Board should make an amendment to IAS 29 to address this issue? 2. Does the Committee have any comments on the proposed wording for the tentative agenda decision in Appendix A, or for the amendments, in Appendix B and Appendix C?

Appendix A – Proposed wording for agenda decision

A1. The staff proposes the following wording for the **tentative** agenda decision:

> **IAS 29 *Financial Reporting in Hyperinflationary Economies* – Reporting in accordance with IFRSs after a period of chronic hyperinflation**
>
> The Committee received a request for clarification on how an entity should resume presenting financial statements in accordance with IFRSs after a period when it did not comply with IAS 29.
>
> The request identifies an entity whose functional currency is the currency of a hyperinflationary economy. The entity is unable to comply with IAS 29 because the general price index relating to the entity's functional currency is unavailable, and the functional currency lacks exchangeability, that is, the entity's functional currency is suffering from chronic hyperinflation. The entity's functional currency then changes to a non-hyperinflationary currency.
>
> The Committee noted that current IFRSs do not provide guidance relating to this issue and that it is not possible to prepare financial statements in accordance with IFRSs during a period of chronic hyperinflation.
>
> The Committee concluded that IAS 29 should be amended to provide guidance on how an entity shall prepare and present an opening statement of financial position at the date when the entity's functional currency ceases to be a currency that is suffering from chronic hyperinflation.
>
> The guidance would require an entity to be deemed as a new accounting entity and prepare its opening statement of financial position as if the entity is a new accounting entity from that date. Consequently, there is no comparative information for the new accounting entity, for periods before that date.
>
> The Committee noted that this issue is time-sensitive and that amendment to IFRSs is necessary.
>
> Consequently, the Committee [decided] not to add the issue to its agenda but to recommend that the Board should amend IAS 29 to address the issue.

Appendix B – Proposed amendment to IAS 29 *Financial Reporting in Hyperinflationary Economies*

Paragraphs 38A-38O, 40A and 41A are added.

Change in characteristics of a currency of a hyperinflationary economy

38A The currency of a hyperinflationary economy may be subject to chronic hyperinflation because it has both of following characteristics:

(a) a reliable general price index is not available to all entities reporting in the currency.
(b) exchangeability between the currency and other currencies no longer exists.

38B When, and only when, an entity has a functional currency that ceases to have both of the characteristics identified in paragraph 38A, the entity shall, on the date when its functional currency is no longer subject to chronic hyperinflation, apply paragraphs 38C-38N and 40A.

New accounting entity

38C The entity is deemed a new accounting entity as at the date when its functional currency is ceases to be subject to chronic hyperinflation and it shall prepare an opening IFRS statement of financial position. Comparative information does not exist for this new accounting entity.

Recognition

38D Assets and liabilities shall be recognised by the new accounting entity in accordance with the entity's accounting policies that are applied in the opening IFRS statement of financial position.

38E Assets and liabilities shall be classified and designated, as necessary, to apply other IFRSs prospectively from the date that the entity is deemed to be a new accounting entity. These classifications or designations shall be made on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the date of the opening IFRS statement of financial position.

38F A separate hyperinflation reserve component of equity shall be recognised by the new accounting entity in the opening IFRS statement of financial position.

Measurement principles

38G Assets and liabilities recognised by the new accounting entity in the opening IFRS statement of financial position shall be measured at fair value. This fair value is used as deemed cost at that date.

38H The separate hyperinflation reserve component of equity recognised by the new accounting entity in the opening IFRS statement of financial position shall be measured as a residual interest. This is calculated as the net of the assets, liabilities and other components of equity that are recognised and measured in accordance with this standard.

Exceptions to the recognition and measurement principles

Income Taxes

38I Deferred tax assets or liabilities shall be recognised and measured by the new accounting entity in the opening IFRS statement of financial position in accordance with IAS 12 *Income Taxes*.

Employee benefits

38J Liabilities (or assets, if any) related to the new accounting entity's employee benefit arrangements shall be recognised and measured in the opening IFRS statement of financial position in accordance with IAS 19 *Employee Benefits*.

Legal and statutory reserves and equity instruments

38K Legal and statutory reserves and equity instruments (eg share capital and share premium) shall be recognised and measured by the new accounting entity in the opening IFRS statement of financial position in accordance with local statutory requirements and the contractual terms of the instruments.

Exception to the recognition principle

Goodwill

38L Goodwill shall not be recognised by the new accounting entity in the opening IFRS statement of financial position.

Exception to the measurement principle

Share-based payment

38M Liability and equity instruments related to share-based payment awards shall be measured by the new accounting entity in the opening IFRS statement of financial position in accordance with the method in IFRS 2 *Share-based Payment*.

Assets held for sale

38N Non-current assets (or disposal groups) that are classified as held for sale at the date of opening IFRS statement of financial position shall be measured by the new accounting entity in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* at fair value less costs to sell in accordance with paragraphs 15–18 of that IFRS.

Consolidated financial statements

38O An entity that prepares and presents consolidated financial statements in accordance with IAS 27 *Consolidated and Separate Financial Statements* should apply paragraph 38A of this standard when accounting for an interest in an entity.

40A If an entity applies paragraphs 38A ─ 38O, the following disclosures shall be made:

(a) the fact that the entity is a new accounting entity, and the relationship with the previous accounting entity;
(b) an explanation of how, and why, the entity ceased to have a functional currency that has both of the characteristics in paragraph 38A; and
(c) the basis for recognising and measuring assets, liabilities and equity in the opening IFRS statement of financial position.

41A An entity shall apply paragraphs 38A – 38O and 40A for annual periods beginning on or after 1 January 2011 on a prospective basis. Earlier application is permitted. If an entity applies paragraphs 38A – 38O in its financial statements for a period beginning before 1 January 2011, it shall disclose that fact.

Basis for Conclusions on proposed amendment to IAS 29 *Financial Reporting in Hyperinflationary Economies*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

BC1 In 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 when it did not comply with IAS 29 *Financial Reporting in Hyperinflationary Economies*.

BC2 The request identified a situation when an entity can no longer comply with IAS 29 because the general price index relating to the entity's functional currency becomes unavailable and the functional currency lacks exchangeability. The accounting entity's functional currency then changes to a non-hyperinflationary currency and the entity considers how it can resume presenting financial statements in accordance with IFRSs.

BC3 The IFRS Interpretations Committee concluded that IFRSs do not address how an entity should resume presenting financial statements in accordance with IFRSs in this situation and recommended that the Board should amend IAS 29.

BC4 The Board [determined] that it was appropriate to amend IAS 29 to address this issue, because it only arises when an entity's functional currency was the currency of a hyperinflationary economy.

BC5 The Board [proposed] that the amendment should only apply to situations when the entity's functional currency ceases to be a currency for which a general price index relating to the entity's functional currency is unavailable and when the currency lacks exchangeability.

BC6 The Board [decided] that on the date when an entity's functional currency ceases to have both of the characteristics identified in BC5, the entity is deemed to be a new accounting entity and shall prepare an opening IFRS statement of financial position. Consequently, there is no comparative information for the new accounting entity for reporting periods before this date.

BC7 In this opening IFRS statement of financial position, the entity shall apply a principle of recognising assets and liabilities in accordance with current IFRSs.

BC8 A measurement principle of fair value as deemed cost should be applied when measuring these assets and liabilities in the opening statement of financial position, subject to specific exceptions.

BC8 The Board also [decided] that in this situation an entity should not apply IFRS 1 *First-time Adoption of International Financial Reporting Standards*. This is because of the specific guidance provided in IAS 29.

Appendix C – Consequential amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs 4(d) is added.

Scope

(d) applies paragraphs 38A-38O of IAS 29 Financial Reporting in Hyperinflationary Economies when presenting separate or consolidated financial statements.

Appendix D – Timeline example

D1. The purpose of Appendix D is to provide an illustrative timeline relating to the accounting for a Zimbabwe subsidiary (Entity S).

D2. This illustrative timeline assumes the following:

(a) the proposed amendment to IAS 29 is issued in accordance with the timeline proposed in paragraph 94 of the agenda paper and Entity S applies the proposed amendment on 1 January 2009;

(b) the functional currency of Entity S was the Zimbabwean dollar;

(c) the Zimbabwe dollar is the currency of a hyperinflationary economy;

(d) the Zimbabwe dollar became the currency of a chronic hyperinflationary economy on 1 November 2008;

(e) Entity S was required to change its functional currency in accordance with IAS 21 from the Zimbabwe dollar to the US dollar on 1 January 2009; and

(f) Entity S has an annual reporting date of 31 December.

D3. This timeline is broadly consistent with the staff understanding that the:

(a) Zimbabwe dollar began suffering chronic hyperinflation in 2008; and

(b) Zimbabwe economy became 'US dollarised' in January 2009.

D4. However it should be noted that different entities may identify the existence of chronic hyperinflation and a change in their functional currency to a currency that does not suffer from chronic hyperinflation at different dates, depending on specific facts and circumstances.

Entity S's separate financial statements

D5. Entity S prepares its separate financial statements as follows.

31 December 2007 separate financial statements

D6. Entity S prepares separate financial statements in accordance with IFRSs by applying the existing guidance in IAS 29.

31 December 2008 separate financial statements

D7. Entity S could not prepare its separate financial statements in accordance with IFRSs for the annual reporting period ending 31 December 2008 because the entity's functional currency was the currency of a chronic hyperinflationary economy.

31 December 2009 separate financial statements

D8. Entity S could not prepare its separate financial statements in accordance with IFRSs for the annual reporting period ending 31 December 2009.

D9. Even though its functional currency is no longer the currency of a chronic hyperinflationary economy, guidance within IFRSs is insufficient to enable Entity S to present financial statements, specifically, comparative financial information, that is in accordance with IFRSs.

31 December 2010 separate financial statements

D10. The proposed amendment is issued in January 2011.

D11. Entity S elects to early adopt the proposed amendment in the 31 December 2010 separate financial statements.

D12. Consequently, the entity is deemed to be a new accounting entity established on 1 January 2009 in accordance with the proposed amendment to IAS 29.

D13. The entity applies the measurement approach required by this amendment in preparing an opening statement of financial position on 1 January 2009, presented in US dollars.

D14. The 31 December 2010 separate financial statements are prepared and presented in accordance with IFRSs.

D15. This is because this entity is deemed to be a new accounting entity on 1 January 2009 and has no comparative financial information that is required to be presented.

D16. Any financial information presented by the entity that relates to reporting periods prior to 1 January 2009 must be disclosed separately and identified as not being in accordance with IFRSs.

Project **Items for Continuing Consideration**

Topic **IAS 29 *Financial Reporting in Hyperinflationary Economies* – Reporting in accordance with IFRSs after a period of chronic hyperinflation**

Purpose of this paper

1. The purpose of this paper is to document the staff analysis and recommendations relating to application of the proposed amendment, as described in agenda paper 12B.

2. Specifically this paper considers applying the proposed amendment when preparing and presenting the consolidated IFRS financial statements of a parent with an interest in an entity that no longer has a functional currency that suffers from chronic hyperinflation.

Staff analysis

Consolidated financial statements of a parent with an interest in an entity that ceases to have a functional currency that is the currency of a chronic hyperinflationary economy

3. In May 2010, the Committee requested the staff to consider the impacts of the proposed amendment to IAS 29 *Financial reporting in Hyperinflationary Economies*, described in agenda paper 12B, upon the consolidated financial statements of a parent with an interest in an entity that ceases to have a functional currency that is the currency of a chronic hyperinflationary economy.

4. In considering the circumstance when the parent itself did not at any time have a functional currency that is the currency of a chronic hyperinflationary economy,

the staff have identified the following factors that may affect the impact of the proposed amendment on the parent's consolidated IFRS financial statements:

(a) Was the parent able to prepare and present consolidated financial statements that included an explicit and unreserved statement of compliance with IFRSs during the period that it held an interest in an entity that had a functional currency that is the currency of a chronic hyperinflationary economy?

(b) Did the parent consolidate the interest during the period that the interest had a functional currency that suffered from chronic hyperinflation?

(c) Is the interest material to the parent's consolidated IFRS financial statements?

Situation 1 – Parent consolidated financial statements IFRS-compliant, interest consolidated and interest material

5. In Situation 1, the parent was able to prepare and present consolidated financial statements that included an explicit and unreserved statement of compliance with IFRSs during the period that a material subsidiary had a functional currency that suffered from chronic hyperinflation.

6. The parent entity also determined that it continued to control the subsidiary before, during, and after it had a functional currency that is the currency of a chronic hyperinflationary economy.

7. In applying the proposed amendment, the staff think that the parent should consolidate the new, subsidiary reporting entity from the date that the subsidiary ceases to have a functional currency that suffers from chronic hyperinflation.

8. The staff believe that this new reporting entity should be consolidated based upon the opening statement of financial position that is prepared in accordance with the proposed amendment.

9. Comparative information in the parent's consolidated financial statements should be presented on a basis that is consistent with the consolidated financial statements presented in the previous reporting period.

10. This comparative information should include financial information relating to the old subsidiary reporting entity until the date that the subsidiary ceases to have a functional currency that suffers from chronic hyperinflation.

11. At this date, the existing assets and liabilities of the old subsidiary reporting entity will be replaced by the assets and liabilities of the new subsidiary reporting entity, which are recognised and measured in accordance with the proposed amendment.

12. Any difference between the net assets of the old and new subsidiary reporting entity should be recognised as a chronic hyperinflation reserve, separately identified within consolidated equity of the parent.

Situation 2 – Parent consolidated financial statements not IFRS-compliant, interest consolidated and interest material

13. In Situation 2, the parent was unable to present financial statements that were in full compliance with IFRSs during the period that a material subsidiary had a functional currency that suffers from chronic hyperinflation.

14. In this situation, when applying the proposed amendment, the staff think that the parent entity would consolidate a new subsidiary reporting entity from the date that the subsidiary entity ceases to have a functional currency that is the currency of a chronic hyperinflationary economy.

15. The staff believe that this new subsidiary reporting entity would be consolidated based upon the opening statement of financial position that is prepared in accordance with the proposed amendment, and would not have any comparative financial information that requires presentation.

16. However, the proposed amendment does not immediately enable financial statements prepared and presented by the parent after this date to be IFRS-compliant.

17. This is because the parent still has a requirement to present comparative financial information relating to the old subsidiary reporting entity.

18. In future reporting periods, when the parent is no longer required to present comparative financial information relating to the old subsidiary reporting entity,

the question may arise as to whether then entity's consolidated financial statements are considered to be the parent's first IFRS financial statements, and consequently whether the parent would be required to apply IFRS 1 *First-time Adoption of International Financial Reporting Standards*

19. The staff do not think that the parent entity should apply IFRS 1 in this situation.

Situation 3 – Parent consolidated financial statements IFRS-compliant, interest not consolidated and interest material

20. In Situation 3, the parent was able to present financial statements that were in full compliance with IFRSs during the period that an entity it held an interest in had a functional currency that suffers from chronic hyperinflation.

21. Prior to the existence of chronic hyperinflation, the parent exercised control over the interest, and consolidated the subsidiary in the parent's consolidated IFRS financial statements.

22. However, during this period of chronic hyperinflation, the parent entity deconsolidated the subsidiary because it determined that it no longer controls the entity (eg because of the impact of legislation introduced in, or operational restrictions relating, to the hyperinflationary economy).

23. Once the functional currency of the interest ceases to suffer from chronic hyperinflation, if the parent determines that it regains control of the subsidiary it should re-consolidate it in the parent's consolidated IFRS financial statements.

24. The question then arises as to how the parent should reflect this re-consolidation in the consolidated IFRS financial statements. This is because the parent has not provided any consideration to regain control of the subsidiary.

25. The staff have identified two views in addressing this situation:

View 1 - Application of IFRS 3 (profit or loss approach)

26. In accordance with View 1, the parent accounts for the consolidation with the subsidiary as a bargain purchase on the date that control is regained. This is in accordance with the guidance in IFRS 3.34, which states:

> Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount in paragraph 32(b) exceeds the aggregate of the amounts specified in paragraph 32(a). If that excess remains after applying the requirements in paragraph 36, the acquirer shall ***recognise the resulting gain in profit or loss*** on the acquisition date. The gain shall be attributed to the acquirer. (emphasis added)

27. In applying View 1, a significant gain is likely to be recognised in the parent's consolidated profit or loss, because the assets of the subsidiary are now recognised and measured, in accordance with the proposed amendment, in a functional currency that does not suffer from chronic hyperinflation. This may not be useful to the users of the parent's financial statements.

View 2 – Application of the proposed amendment (equity approach).

28. In accordance with View 2, the parent should apply the guidance in the proposed amendment when reconsolidating the subsidiary similarly to the accounting in the subsidiary's separate financial statements.

29. Any difference arising on the re-recognition and remeasurement of the assets and liabilities of the new subsidiary reporting entity, in accordance with the proposed amendment, should be recognised as a chronic hyperinflation reserve, separately identified within consolidated equity of the parent, not profit or loss.

30. Proponents of View 2 note that accounting for the reconsolidation outside of IFRS 3 is analogous to a combination of entities or businesses under common control being outside the scope of IFRS 3.

31. The staff support View 2 when the reconsolidation happens because the subsidiary has a functional currency that no longer suffers from chronic hyperinflation. This is because the staff believe that View 2 would be consistent with the:

    (a) proposed amendment which requires a specific IAS 29 approach rather than application of IFRS 3;

    (b) notion that the subsidiary is now a new reporting entity; and

(c) objective of financial statements to provide information that is useful to a wide range of users in making economic decisions, because it avoids recognition of a potential significant one-time profit or loss.

32. If the parent regains control and consequently reconsolidates the subsidiary for reasons other than because the subsidiary ceases to have a functional currency that suffers from chronic hyperinflation, then the staff believe that View 1 is instead required to be applied.

33. This is because in this situation the staff think that the parent should apply IFRS 3 when it regains control of the subsidiary.

Situation 4 – Parent consolidated financial statements IFRS-compliant, interest consolidated and interest not material, but becomes material

34. In Situation 4, the parent was able to present financial statements that were in full compliance with IFRSs during the period that an entity consolidated a subsidiary that had a functional currency that suffers from chronic hyperinflation.

35. This was because the parent determined that that the subsidiary was not material to the consolidated financial statements of the parent (eg because of the impact of translating assets and liabilities measured in the functional currency of a chronic hyperinflationary economy or because of the recognition of significant impairments).

36. However, when the functional currency of the subsidiary ceases to be a functional currency of a chronic hyperinflationary economy, the parent determines that the subsidiary becomes material to the consolidated financial statements of the parent.

37. This may be because of the affect of measuring assets and liabilities in a functional currency that does not suffer from chronic hyperinflation, or of recognising non-monetary assets at fair value as deemed cost.

38. As in the case of Situation 1, the staff believe that in Situation 4 the parent entity should consolidate a new, material reporting entity from the date that the subsidiary ceases to have a functional currency that suffers from chronic hyperinflation.

39. The staff think that the new subsidiary reporting entity should be consolidated based upon the opening statement of financial position that is prepared in accordance with the proposed amendment.

40. At this date, the existing assets and liabilities of the old subsidiary reporting entity will be replaced by the assets and liabilities of the new subsidiary reporting entity, which are recognised and measured in accordance with the proposed amendment.

41. Any difference between the net assets of the old and new subsidiary reporting entity should be recognised as a chronic hyperinflation reserve, separately identified within consolidated equity of the parent.

42. The staff believe that the parent entity would not be required to apply IFRS 1, because it was compliant with IFRSs in its most recent previous financial statements

Staff recommendation

43. The staff believe that the analysis relating to preparing and presenting the consolidated IFRS financial statements of a parent with an interest in an entity that ceases to have a functional currency that is the currency of a chronic hyperinflationary economy supports the approach to the proposed amendment described in agenda paper 12B.

44. Specifically, the staff believe that this approach to the proposed amendment provides guidance that is useful not only to an entity which no longer has a functional currency that suffers from hyperinflation, but also in assisting the parent of the entity in preparing IFRS-compliant consolidated financial statements.

Appendix A – Timeline example

A1. The purpose of Appendix A is to provide an illustrative timeline relating to the accounting in the consolidated financial statements of an overseas parent (Entity P) which has a Zimbabwe subsidiary (Entity S).

A2. This illustrative timeline assumes the following:

(a) the proposed amendment to IAS 29 is issued in accordance with the timeline proposed in agenda paper 12B and both Entity S and Entity P apply the proposed amendment on 1 January 2009;

(b) Entity S is material to Entity P's consolidated financial statements in all reporting periods;

(c) Entity P determines that it maintains control of Entity S and consolidates Entity S in all reporting periods;

(d) the functional currency of Entity P is not at any stage the currency of a chronic hyperinflationary economy;

(e) the functional currency of Entity S was the Zimbabwe dollar;

(f) the Zimbabwe dollar is the currency of a hyperinflationary economy;

(g) the Zimbabwe dollar became the currency of a chronic hyperinflationary economy on 1 November 2008;

(h) Entity S was required to change its functional currency in accordance with IAS 21 from the Zimbabwean dollar to the US dollar on 1 January 2009; and

(i) both Entity S and Entity P have an annual reporting date of 31 December.

A3. This timeline is broadly consistent with the staff understanding that the:

(a) Zimbabwe dollar began suffering from chronic hyperinflation in 2008; and

(b) Zimbabwe economy became 'US dollarised' in January 2009.

A4. However it should be noted that different entities may identify the existence of chronic hyperinflation and a change in their functional currency to a currency that does not suffer from chronic hyperinflation at different dates, depending on specific facts and circumstances.

Parent's (Entity P) consolidated financial statements

A5. Entity P prepares its consolidated financial statements as follows.

31 December 2007 consolidated financial statements

A6. Entity P prepares consolidated financial statements in accordance with IFRSs by applying the existing guidance in IAS 29 to account for Entity S.

Year 2008 consolidated financial statements

A7. Entity P determines that it cannot prepare its consolidated financial statements in accordance with IFRSs for the reporting period ended 31 December 2008, because a material subsidiary's functional currency was the currency of a chronic hyperinflationary economy.

A8. This is because Entity P determines that the material subsidiary is so significant to the consolidated financial statements that it is unable to state full compliance with IFRSs.

Year 2009 consolidated financial statements

A9. Entity P determines that it could not prepare its separate financial statements in accordance with IFRSs for the annual reporting period ending 31 December 2009.

A10. Even though the functional currency of its material subsidiary, Entity S, is no longer the currency of chronic hyperinflationary economy, Entity P determines that guidance within IFRSs is insufficient to enable it to present consolidated financial statements that are in accordance with IFRSs.

Year 2010 consolidated financial statements

A11. The proposed amendment is issued in January 2011.

A12. Entity P elects to early adopt the proposed amendment in the 31 December 2010 consolidated financial statements when accounting for Entity S.

A13. Entity S is deemed to be a new accounting entity established on 1 January 2009 in accordance with the proposed amendment to IAS 29.

A14. Entity P consolidates the new Entity S from 1 January 2009.

A15. Entity P is still required to consolidate the old Entity S until 31 December 2008.

A16. Entity P determines that it may be able to prepare its consolidated financial statements in accordance with IFRSs for the reporting period ending 31 December 2010, because it has two years of IFRS-compliant financial information relating to new Entity S (2009 and 2010).