

# Straight away

## IFRS bulletin from PricewaterhouseCoopers

### Proposed IFRS 1 amendment for entities subject to severe hyperinflation

#### What is the issue?

The IASB has issued an exposure draft proposing an amendment to IFRS 1, 'First-time adoption of International Financial Reporting Standards'. The amendment would create an additional exemption when an entity resumes presenting financial statements in accordance with IFRSs after being subject to severe hyperinflation. The exemption would allow an entity to elect to measure assets and liabilities at fair value and use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

An entity might be unable to prepare financial statements in accordance with IFRSs for a period of time because it could not comply with IAS 29, 'Financial reporting in hyperinflationary economies', due to severe hyperinflation. This means a reliable general price index is not available. However, there is no ability to exchange the hyperinflationary currency into a relatively stable foreign currency. The proposed exemption would apply when the entity is able to begin reporting in accordance with IFRS either because its functional currency has ceased to be hyperinflationary or because its functional currency has changed to a stable currency.

#### Key provisions

The amendment proposes that the currency of a hyperinflationary economy is subject to severe hyperinflation when:

- a reliable general price index is not available to all entities with transactions and balances in the currency; and
- exchangeability between the currency and a relatively stable foreign currency does not exist.

An entity's functional currency may cease to be subject to severe hyperinflation:

- on a date described as the functional currency normalisation date;
- when one or both of the characteristics of severe hyperinflation no longer exist; or
- when the first-time adopter changes its functional currency to a currency that is not subject to severe hyperinflation.

The entity would be a first-time adopter when it begins to prepare IFRS financial statements again.

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, it may elect to measure all assets and liabilities at fair value and use that fair value as its deemed cost in the opening IFRS statement of financial position on the date of transition. IFRS 1 defines the date of transition as the beginning of the earliest period for which an entity presents full comparative information under IFRS in its first IFRS financial statements. The entity cannot comply with IFRS because of the severe hyperinflation in periods before the date of transition to IFRS, as the comparatives are not in accordance with IFRS in its first IFRS financial statements. The entity should therefore consider whether disclosure of non-IFRS comparative information and historical summaries in accordance with IFRS 1 would provide useful information to the users of the financial statements.

If an entity applies the exemption relating to severe hyperinflation in order to comply with IFRS, it should explain the transition to IFRS and explain why and how the entity had ceased to have a functional currency subject to severe hyperinflation.

The proposed effective date is expected to be 1 July 2011, although this was not stated in the exposure draft. Earlier application is expected to be permitted.

## Am I affected?

The proposed amendments are believed to have a limited impact, because the exemption is only available to entities whose functional currency was subject to severe hyperinflation. The Zimbabwean economy has been identified as an economy that was subject to severe hyperinflation until quarter one of 2009; the proposed amendment is unlikely to apply in other territories.

The amendment would not change or allow any IFRS 1 exemptions for a reporting entity that has an interest in an entity subject to severe hyperinflation, except to the extent that the reporting entity is also a first-time adopter.

## What do I need to do?

The IASB is requesting comments on the proposed amendment to IFRS 1 by 30 November 2010. Management of entities in Zimbabwe and other territories that believe they are or may be subject to severe hyperinflation should consider commenting on the proposed amendment.

If you have questions on the application of the amendment or require further information, speak to your regular PwC contact.

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