

IFRS in Focus

IASB issues Amendments to IFRS 1 on First-time Adoption of IFRSs after Period of Severe Hyperinflation

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The Bottom Line

- The amendments provide guidance for entities emerging from severe hyperinflation that are either resuming the presentation of IFRS-compliant financial statements or presenting IFRS-compliant financial statements for the first time.
- In accordance with the amendments, when an entity's date of transition to IFRSs is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to IFRSs and use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.
- When the functional currency normalisation date falls within a 12-month comparative period, the comparative period may be less than 12 months, provided that a complete set of financial statements is provided for that shorter period.
- Entities making use of this exemption should describe the circumstances of how, and why, their functional currency became subject to severe hyperinflation and the circumstances that led to those conditions ceasing.
- The amendments are effective for annual periods beginning on or after 1 July 2011. Earlier application is permitted.

The amendments

On 20 December 2010, the International Accounting Standards Board (IASB) published amendments to IFRS 1 *Severe Hyperinflation* (the "amendments"), which provide guidance for entities emerging from severe hyperinflation that are either resuming the presentation of IFRS-compliant financial statements or presenting IFRS-compliant financial statements for the first time.

For more information please see the following websites:

www.iasplus.com

www.deloitte.co.uk

Severe hyperinflation

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

- 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.

The 'functional currency normalisation date' is the date when either or both of these characteristics no longer exist and hence the currency is no longer subject to severe hyperinflation, or when the entity's functional currency changes to a currency that is not subject to severe hyperinflation.

The amendments add an exemption to IFRS 1 *First-time Adoption of International Reporting Standards* such that when an entity's date of transition to IFRSs is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to IFRSs and use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

Observation

The exemption to use fair value as deemed cost should be applied only to those assets and liabilities that are held before the functional currency normalisation date, and not to other assets and liabilities held by the entity at the time of transition to IFRSs. Furthermore, where a parent entity's functional currency has been subject to severe hyperinflation but its subsidiary's functional currency has not, the subsidiary would not be able to apply this exemption.

Any adjustments arising from this election are recognised directly in equity at the date of transition to IFRSs and must be accompanied by an explanation of how, and why, the entity had, and then ceased to have, a functional currency that was subject to severe hyperinflation.

When the functional currency normalisation date falls within a 12-month comparative period, the comparative period may be less than 12 months, provided that a complete set of financial statements (as required by paragraph 10 of IAS 1) is provided for that shorter comparative period. 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 in these circumstances.

Effective date

The amendments are effective for annual periods beginning on or after 1 July 2011. Earlier application is permitted.

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