



To:	AASB members	Date:	13 October 2010
From:	Maybelle Chia and Clark Anstis	Agenda Item:	6.5
Subject:	Amendments to IFRS 1 – Removal of Fixed Dates and Severe Hyperinflation	File:	

Action

In respect of AASB Exposure Draft ED 203 incorporating IASB Exposure Draft ED/2010/10 *Removal of Fixed Dates for First-time Adopters (proposed amendments to IFRS 1)*, to consider:

- (a) the submission received; and
- (b) whether the AASB should make a submission to the IASB and if a submission is to be made:
 - (i) the issues to be raised in the submission; and
 - (ii) the approval process.

In respect of AASB Exposure Draft ED 206 incorporating IASB Exposure Draft ED/2010/12 *Severe Hyperinflation (proposed amendment to IFRS 1)*, to give preliminary consideration to whether the AASB should make a submission to the IASB and if a submission is to be made:

- (a) the issues to be raised in the submission; and
- (b) the approval process.

Background

RELEVANCE OF AASB 1

The relevance of AASB 1 *First-time Adoption of Australian Accounting Standards* has been largely diminished since the transition to IFRS equivalents in 2005 by Australian reporting entities. It remains relevant to entities transitioning from special purpose financial reports to Australian Accounting Standards. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains its application in the context of transition to Tier 1 or Tier 2. Tier 2 entities transitioning to Tier 1 and claiming compliance with IFRSs would need to make additional AASB 1 disclosures (paragraphs 21 and 22 of AASB 1053).

Given the limited relevance to Australian entities of AASB 1, the Board may well decide not to respond to the IASB exposure drafts.

SUBMISSIONS TO THE IASB

The due date for submissions to the IASB on ED/2010/10 *Removal of Fixed Dates for First-time Adopters* is 27 October 2010 and on ED/2010/12 *Severe Hyperinflation* is 30 November 2010. Staff recommend that the Board make submissions on the exposure drafts.

As the 27-28 October Board meeting is the only Board meeting prior to the comment deadlines, the Board should consider how it would finalise the content of any submissions to the IASB. The approval process could involve circulation out of session to all Board members or a subcommittee of members, or approval by the Chairman alone. This approval process would have to address any submissions on ED 206 received from constituents after the Board meeting.

<p>Q1 How do Board members wish to finalise any submission on one or both of the IASB exposure drafts?</p>

REMOVAL OF FIXED DATES FOR FIRST-TIME ADOPTERS

In August 2010, the IASB issued Exposure Draft ED/2010/10 *Removal of Fixed Dates for First-time Adopters* with comments requested by 27 October 2010. The AASB issued ED 203, which incorporates the IASB ED, with comments requested by 4 October 2010.

The IASB ED proposes to amend the fixed dates of 1 January 2004 and 25 October 2002 to 'the date of transition to IFRSs' in paragraphs B2 (financial instrument derecognition exemption) and D20 (day one gains/losses on initial fair value measurement of financial instruments) of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendments were proposed as the fixed dates have become more remote and increasingly less relevant to financial reports in additional jurisdictions that will adopt IFRSs (or of any entity adopting IFRSs). Accordingly, the IASB decided that the cost of reconstructing transactions back in time to 1 January 2004 was likely to outweigh the benefit to be achieved in doing so.

Submissions

To date, one submission has been received on ED 203, from Grant Thornton. The submission expresses overall support for ED 203. A copy of the submission is provided in agenda paper 6.7.

Issues

Staff have identified aspects of ED/2010/10 that should or might be addressed in an AASB submission to the IASB.

Provide relief from burdensome retrospectivity

Staff support the proposed amendments. Staff are of the view that for entities adopting IFRS 1 in the future, the fixed dates in IFRS 1 result in exemptions that are largely irrelevant because they apply only to transactions that occurred before 1 January 2004 (or 25 October 2002 if that option is chosen).

Staff agree with the IASB's rationale that the costs of reconstructing derecognition transactions and recalculating fair value amounts back to 1 January 2004 (or 25 October 2002) would likely outweigh the benefits achieved. Staff consider that the proposed amendments will remove this burden on first-time adopters.

Loss of comparability

Staff note that with the change from fixed dates to relative dates, some comparability between first-time adopters and entities that are already applying IFRSs will be lost. However, staff are of

the view that this comparability is significantly outweighed by the compliance costs. Staff also note that for entities that are already applying IFRSs, the IASB (and the AASB in AASB 1) have previously accepted the potential lack of comparability in regard to relevant transactions prior to the fixed dates. Accordingly, staff think that the lack of comparability for an entity's relevant transactions prior to its date of transition to IFRSs is equally acceptable.

Q2 Do Board members agree with the issues and views set out above and their inclusion in a submission from the Board that generally supports the IASB ED/2010/10?

Reduced Disclosure Requirements (Tier 2)

The amendments proposed in ED 203 relate to recognition (paragraph B2) and measurement (paragraph D20) rather than disclosure requirements. Accordingly, staff do not foresee any disclosure issues with the proposed amendments in ED 203 for entities adopting Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2) for the first time.

SEVERE HYPERINFLATION

In September 2010, the IASB issued Exposure Draft ED/2010/12 *Severe Hyperinflation* with comments requested by 30 November 2010. The AASB issued ED 206, which incorporates the IASB ED, with comments requested by 8 November 2010.

The IASB ED proposes to add an exemption to IFRS 1 to allow an entity that has been subject to severe hyperinflation to measure assets and liabilities at fair value and use that fair value as the deemed cost of those assets and liabilities in its opening IFRS statement of financial position. The amendments were proposed to provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because it had a functional currency that was subject to severe hyperinflation.

Submissions

Given that ED 206 was issued during the drafting of this agenda paper, no submissions have been received from Australian constituents to date. Submissions may yet be received, as the ED is open to comment to 8 November 2010. Any submissions received need to be provided to Board members for consideration in finalising any AASB submission on the IASB's ED.

Issues

Staff have identified aspects of ED/2010/12 that should or might be addressed in an AASB submission to the IASB.

Limited application in Australia

The proposed amendments are likely to have a limited impact, because the exemption would be available only to entities whose functional currency had been subject to severe hyperinflation. Staff consider that the only expected impact of the ED in the Australian environment would be on Australian entities accounting for interests in entities whose functional currency was subject to severe hyperinflation. The general issue appears to have been raised with the IFRS Interpretations Committees in relation to entities in Zimbabwe.

Is amendment of IFRS 1 necessary?

The IASB's proposal to amend IFRS 1 is based on the view that an entity suffering severe hyperinflation as defined could not comply with IAS 29 *Financial Reporting in Hyperinflationary Economies*. However, IAS 29 includes already a number of departures from the application of a

general price index: paragraph 16 allows an independent professional assessment of the value of items of property, plant and equipment where acquisition dates are not known, and paragraph 17 allows an estimate for property, plant and equipment where a general price index is not available.

It may be feasible to extend those approaches (in severe hyperinflation cases) to all non-monetary items, rather than limit them to property, plant and equipment. Such extension could potentially allow an entity suffering severe hyperinflation to claim compliance with IFRSs instead of being regarded as non-compliant.

Effect on parents, venturers and investors

The Basis for Conclusions (paragraph BC10) notes that the IASB did not make any decisions on how an entity should account for interests in entities that suffered severe hyperinflation in the consolidated financial statements of parents, venturers and investors – due to such entities apparently finding sufficient guidance in IFRSs. It is not clear how, for example, a parent entity could claim compliance with IFRSs if its major subsidiary was subject to severe hyperinflation, and financial statements of the subsidiary were regarded as non-compliant. In the Zimbabwean case, the solution might have been that the parent did not consolidate the subsidiary due to loss of control for political reasons.

However, severe hyperinflation does not necessarily mean a loss of control, and hence the parent entity would still need to consolidate a controlled subsidiary. The exposure draft is unhelpful in this respect and should be extended – alternatively, amendment of IAS 29 as suggested above may avoid this problem.

<p>Q3 Do Board members agree with the issues and views set out above and their inclusion in a submission from the Board on IASB ED/2010/12?</p>
--

Reduced Disclosure Requirements (Tier 2)

The amendments proposed in ED 206 include the insertion of disclosure requirements in paragraph 31C concerning the entity having been subject to severe hyperinflation. The disclosure would be presented as part of an entity's explanation of the transition to Australian Accounting Standards.

Similar AASB 1 disclosures regarding deemed cost in paragraphs 30-31B (in fact, all of paragraphs 25-33) are not required of Tier 2 entities. The same outcome may be appropriate for the proposed disclosure in paragraph 31C. A Tier 2 supplement to ED 206 will be prepared.

Attachments

Agenda Paper 6.6	<i>AASB ED 203 Removal of Fixed Dates for First-time Adopters (proposed amendments to AASB 1)</i>
Agenda Paper 6.7	Comment letter received on ED 203 (Grant Thornton)
Agenda Paper 6.8	<i>AASB ED 206 Severe Hyperinflation (proposed amendment to AASB 1)</i>