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Australian Accounting Standards Board

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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Dear David

IASB Exposure Draft ED/2010/12
Severe Hyperinflation

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on Exposure Draft ED/2010/12 *Severe Hyperinflation (Proposed amendment to IFRS 1)*. In formulating these comments, the AASB sought and considered the views of Australian constituents.

Overall view

In general the AASB does not support the proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The AASB is of the view that the IASB should consider amending IAS 29 *Financial Reporting in Hyperinflationary Economies* instead, by extending the permitted departures from the application of a general price index to all non-monetary items in severe hyperinflation cases. The AASB also considers that ED/2010/12 does not address adequately how a parent, venturer or investor should account in its consolidated financial statements for interests in entities that suffer or have suffered severe hyperinflation.

Specific comments

Is amendment of IFRS 1 necessary?

The AASB notes that 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.

However, the AASB notes that IAS 29 already includes 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.

The AASB is of the view that it may be feasible to extend that approach to all non-monetary items in severe hyperinflation cases, rather than limit it to property, plant and equipment. The AASB considers that such extension could potentially allow an entity suffering severe hyperinflation to claim compliance with IFRSs instead of having to report non-compliance with IFRSs. The proposed amendment of IFRS 1 to accommodate the accounting problems of entities subject to severe hyperinflation appears to be misdirected and unnecessary.

Effect on parents, venturers and investors

The AASB also notes that the Basis for Conclusions (paragraph BC10) states 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. The AASB considers that it is not clear how, for example, a parent entity could claim compliance with IFRSs in its own financial statements if its major subsidiary was subject to severe hyperinflation, and financial statements of the subsidiary were regarded as non-compliant. In the Zimbabwean case, which precipitated the raising of the issue with the IFRS Interpretations Committee, the AASB considers that the solution might have been that the parent did not consolidate the subsidiary due to loss of control for political reasons.

However, the AASB is of the view that severe hyperinflation does not necessarily mean a loss of control (or significant influence), and in such circumstances the parent entity would still need to consolidate a controlled subsidiary suffering severe hyperinflation. Accordingly, the AASB considers that the Exposure Draft is unhelpful in this respect and should be extended to address this issue.

For example, one conclusion might be that the parent, venturer or investor would be unable to claim compliance with IFRSs due to an inability to translate the hyperinflationary currency amounts to its presentation currency. This is suggested by the proposed definition of severe hyperinflation in paragraph D28 in the Exposure Draft indicating the lack of exchangeability between the currency and any relatively stable foreign currency. In this case, the parent, venturer or investor would become a first-time adopter of IFRSs once the severe hyperinflation confronting the subsidiary, joint venture or associate had passed. It is not clear whether this is intended or whether some estimation process may be possible instead.

If you have any queries regarding any matters in this submission, please contact me or Clark Anstis (canstis@aasb.gov.au).

Yours sincerely

K.M. Stevenson

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Chairman and CEO