pwc

Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

3 December 2010

Dear Kevin

Exposure Drafts ED 201 and ED 206 and IFRIC draft interpretation DI/2010/1

I am enclosing a copy of the PwC responses to the following International Accounting Standards Board's Exposure Drafts and Draft Interpretation issued by the IFRS Interpretations Committee:

- ED/2010/8 *Insurance Contracts* [AASB ED 201], and
- ED/2010/12 *Severe Hyperinflation - Proposed amendment to IFRS 1* [AASB ED 206]
- DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine.*

The letters reflect the views of the PwC network of firms and as such include our own comments on the matters raised in the Exposure Drafts.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss any of the issues raised in the above submissions.

Yours sincerely

Jan McCahey

Jan McCahey

Partner

Assurance

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard
GPO BOX 1331L, Melbourne Victoria 3001 Australia
T +61 3 8603 1000, F +61 3 8613 2308, www.pwc.com.au

pwc

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

30 November 2010

Dear Sir

Severe hyperinflation: Proposed amendment to IFRS 1 ("the exposure draft")

We welcome the opportunity to comment on the exposure draft.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of the member firms that commented on this exposure draft. 'PricewaterhouseCoopers' refers to a network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the board's initiative to assist entities that were unable to comply with IAS 29, 'Financial reporting in hyperinflationary economies', because of severe hyperinflation in Zimbabwe. We believe, however, that an amendment to address severe hyperinflation should be made to IAS 29 rather than IFRS 1 'First-time adoption of International Financial Reporting Standards'.

It is more appropriate to amend IAS 29 because the entities that requested the board consider this issue are unable to prepare financial statements in accordance with IFRSs, as they cannot apply the measurement requirements of IAS 29. We are also concerned that an amendment to IFRS 1 could be applied more widely than the board intends. The scope of the amendment can be restricted more effectively to the circumstances being addressed if IAS 29 is amended.

We acknowledge that an amendment to IFRS 1 would enable the board to provide timely guidance to entities in Zimbabwe, but there is no reason why IAS 29 could not be amended to provide timely guidance. We also acknowledge that there are other issues with IAS 29 that are articulated in BC 7 to BC 9. These might be addressed when there is time on the board's agenda, but an amendment to IAS 29 at this time would not prevent the board dealing effectively with the other issues in the future.

We have explained our concerns in more detail and answered the specific questions raised in the exposure draft in the appendix to this document. We would be pleased to discuss our comments or answer any questions you may have. Please contact John Hitchins, PwC Global Chief Accountant (+44 20 7804 2497) or Tony de Bell (+44 20 7213 5366).

Yours faithfully

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, 10-18 Union Street, London, SE1 1SZ
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7822 4652, www.pwc.co.uk

pwc

Appendix

Question 1 – Severe hyperinflation exemption

The Board proposes adding an exemption to IFRS 1 that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation. This exemption would allow an entity 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.

Do you agree that this exemption should apply when an entity prepares and presents an opening IFRS statement of financial position after being subject to severe hyperinflation?
Why or why not?

We do not agree with the proposal to amend IFRS 1 for an issue that arises from the measurement requirements in IAS 29, 'Financial reporting in hyperinflationary economies'. The original request to the IFRS Interpretations Committee explained that entities in Zimbabwe are unable to apply IAS 29, because the standard requires an entity to either have access to a reliable price index or be able to estimate an index using movements in exchange rates. Neither IAS 29 nor IAS 21, 'The effects of changes in foreign exchange rates', provide guidance on how an entity changes its functional currency to a stable currency when a reliable price index and exchangeability between the old functional currency and the new functional currency do not exist. These issues arise from the guidance in IAS 29; we therefore consider an amendment to IAS 29 to be the most appropriate way to deal with the request for guidance.

We are also concerned that an amendment to IFRS 1 may be applied more widely than the board intended and may be applied by analogy to similar situations in which an entity was unable to comply with IFRS. For example, it appears that the proposed amendment could be applied by an entity that had been subject to severe hyperinflation at any time before its transition to IFRS, rather than by entities that are affected by severe hyperinflation in Zimbabwe, which are the subject of the proposals. The board could be clear in making an amendment to IAS 29 that the new guidance should be applied only in the narrow circumstances being addressed.

We acknowledge that an amendment to IAS 29 would affect both entities that have been subject to severe hyperinflation and entities that consolidate, proportionately consolidate or equity account an interest in an entity subject to severe hyperinflation. We believe that entities with such interests have been able to comply with IFRSs in the consolidated financial statements because, for example, the interests are not material or because control or significant influence was lost as a consequence of the economic situation in Zimbabwe. These entities would not be affected by an amendment to IAS 29. The board could therefore provide timely guidance to entities that were unable, for a period of time, to prepare financial statements in accordance with IFRSs because of severe hyperinflation in Zimbabwe by amending IAS 29 in a way that is unlikely to have a significant effect on entities with subsidiaries or associates in Zimbabwe.

We believe that the board should amend IAS 29 to require an entity that was subject to severe hyperinflation to estimate the effect of restatement for changes in purchasing power and the conversion of the resulting balances into the entity's new functional currency using fair value measured in the entity's new functional currency. This is the approach suggested in the original request to the IFRS Interpretations Committee. This proposal is consistent with the current guidance in IAS 29 and IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies' – that is, in rare circumstances, an entity may, in the first period of application of IAS 29, use valuations to estimate the cost of certain non-monetary items.

We suggest the following amendment to IAS 29, which is consistent with suggestions made by the staff of the IFRS Interpretations Committee and with the principles in the exposure draft:

"Severe hyperinflation

38A - The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

(a) a reliable general price index is not available to all entities with transactions and balances in the currency.

(b) exchangeability between the currency and a relatively stable foreign currency does not exist.

38B - The functional currency of an entity ceases to be subject to severe hyperinflation on the functional currency normalisation date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph 38A, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.

38C - On the functional currency normalisation date, an entity previously subject to severe hyperinflation shall measure at fair value non-monetary assets and liabilities required to be expressed in a current monetary unit in accordance with this Standard. That fair value shall be deemed cost for subsequent reporting under IFRSs.

38 D - An entity previously subject to severe hyperinflation, that provides financial information for any period or date before its functional currency normalisation date as described in paragraph 38B, may not assert that such financial information complies with IFRSs."

Question 2 – Other comments

Do you have any other comments on the proposals?

We explain below our concerns with the proposed amendment as currently drafted. We believe the board should consider these issues if it decides to go ahead with an amendment to IFRS 1; many of these issues would not arise if the board decides instead to amend IAS 29.

<u>Scope</u>
The board tentatively agreed in October 2010, as part of the 2009-2011 'Annual improvements' cycle, to clarify that an entity is required to apply IFRS 1 when its most recent previous financial statements did not include an explicit statement of compliance with all IFRSs. The scope of IFRS 1 will be amended to reflect this conclusion, but this will not happen until the improvements cycle is complete. We suggest that the scope of IFRS 1 is amended to include specifically entities that were subject to severe hyperinflation until the 2009-2011 'Annual improvements' cycle is complete.

We are also concerned that the range of entities that may apply this additional exemption is wider than the board intended and might include an entity that operated in an economy that was subject to severe hyperinflation at any time prior to its transition to IFRSs. We suggest that the scope of the proposed exemption be restricted to assets and liabilities acquired before the currency normalisation date.

<u>Reconciliation to previous GAAP</u>
IFRS 1 paragraph 24 requires an entity to disclose in its first IFRS financial statements reconciliations to the amounts presented in its previous GAAP. The previous GAAP of many Zimbabwean entities was IFRS, except for the inability to comply with IAS 29 – that is, the financial statements were prepared on a cost basis. We believe that reconciliations to the previously reported historical cost information would not provide decision-useful information and might be misleading. This is based on the statement in IAS 29: "*In a*

hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful". We suggest that the entities applying the proposed amendment be exempt from the requirement to present the reconciliations.

Presentation of comparative information
The proposed amendment does not provide clear guidance on the presentation of comparative information. Paragraph BC 15 addresses the presentation of comparatives but does not provide guidance. We believe that comparative information for any period before the functional currency normalisation date may be misleading. We suggest the board clarifies that an entity that voluntarily presents comparative information for any period or at any date before the functional currency normalisation date may not assert that such information complies with IFRSs.

Date of transition to IFRSs
The proposed amendment requires an entity's date of transition to IFRSs to be on or after the functional currency normalisation date. This suggests that entities intending to apply the exemption will have to wait for at least two full calendar years after the date of change of functional currency. The practical challenges that arise because of the period between the functional currency normalisation date and the entity's first IFRS financial statements are illustrated by the following example:

Example
Company A has a December year-end; Company B has a March year-end. Companies A and B previously considered the Zimbabwean dollar (ZWD) to be their functional currency. During February 2009, Companies A and B changed their functional currency to the US dollar (USD) as a consequence of the dollarisation of the economy.

On transition to IFRS, Companies A and B consider whether their functional currency normalisation date (date of change of functional currency) is on or after their date of transition to IFRSs. The first date of transition for Company A that is on or after its functional currency normalisation date would be 1 January 2010 – that is, Company A can adopt IFRSs in full for years ending on or after 31 December 2011. The first date of transition for Company B that is on or after its functional currency normalisation date would be 1 March 2009 – that is, Company B can adopt IFRSs in full for years ending on or after 31 March 2011.

The ability to use the exemption should not be affected by the date on which the functional currency of an entity changed. Entities subject to severe hyperinflation should be allowed to consider the functional currency normalisation date to be the entity's date of transition to IFRSs – that is, the entity would prepare its opening IFRS statement of financial position on the functional currency normalisation date. This might result in a period shorter than 12 months being presented as comparative information in the first IFRS financial statements; in which case, the entity would be required by IAS 1, 'Presentation of financial statements', to explain the reason for the shorter period and to disclose the fact that the financial statements are not entirely comparable. We suggest that the amendment is revised to reflect this guidance.

Application of the exemption
The proposed amendment allows an entity to elect to measure assets and liabilities at fair value on transition to IFRSs and use that fair value as deemed cost. We believe this is too broad and should be limited to the entity's non-monetary assets and liabilities acquired before the functional currency normalisation date that the entity was unable to measure in accordance with IAS 29. We suggest that the final standard clarifies that an entity considers the other exemptions available to a first-time adopter where it elects not to apply the severe hyperinflation exemption to an individual asset or liability.