



## Accounting Standards Board

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29 November 2010

Dear Joaquín

### **EFRAG DCL on the IASB Exposure Draft *Severe Hyperinflation***

I am writing on behalf of the UK Accounting Standards Board (ASB), to respond to the European Financial Reporting Advisory Group (EFRAG) Draft Comment Letter (DCL) on the International Accounting Standards Board (IASB) Exposure Draft (ED) *Severe Hyperinflation*.

The ASB has responded to the IASB and a copy of our response is attached. The ASB supports the proposal to allow entities that resume presenting financial statements in accordance with International Financial Reporting Standards (IFRSs), after being subject to high rates of hyperinflation, by measuring their assets and liabilities at fair value in the opening IFRS statement of financial position. However, the ASB considers that the IASB should introduce this proposal by making an amendment to IAS 29 *Financial Reporting in Hyperinflationary Economies* (as referred to in paragraph BC7 of the Basis for Conclusions) and not to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

If you would like to discuss these comments, please contact Grant Chatterton on 020 7492 2426, e-mail [g.chatterton@frc-asb.org.uk](mailto:g.chatterton@frc-asb.org.uk), or me.

Yours sincerely

**Roger Marshall**  
Chairman

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

29 November 2010

Dear David

### **IASB Exposure Draft *Severe Hyperinflation***

I am writing on behalf of the UK Accounting Standards Board (ASB) in response to the above Exposure Draft (ED).

The ASB's responses to the questions set out in the Invitation to Comment in the ED are set out in the appendix to this letter. In summary, the ASB supports the proposal to allow entities that resume presenting financial statements in accordance with International Financial Reporting Standards (IFRSs), after being subject to high rates of hyperinflation, by measuring their assets and liabilities at fair value in the opening IFRS statement of financial position. However, the ASB considers that the IASB should introduce this proposal by making an amendment to IAS 29 *Financial Reporting in Hyperinflationary Economies* (as referred to in paragraph BC7 of the Basis for Conclusions) and not to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

If you would like to discuss these comments, please contact Grant Chatterton on 020 7492 2426, e-mail [g.chatterton@frc-asb.org.uk](mailto:g.chatterton@frc-asb.org.uk), or me.

Yours sincerely

**Roger Marshall**  
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## **Appendix A: ASB responses to ‘Questions for respondents’ in the IASB Exposure Draft *Severe Hyperinflation***

### **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?*

#### **ASB Response:**

- 1 The ASB supports the proposal to allow entities that resume presenting financial statements in accordance with International Financial Reporting Standards (IFRSs), after being subject to high rates of hyperinflation, by measuring their assets and liabilities at fair value in the opening IFRS statement of financial position. However, the ASB considers that the IASB should introduce this proposal by making an amendment to IAS 29 *Financial Reporting in Hyperinflationary Economies* (as referred to in paragraph BC7 of the Basis for Conclusions) and not to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

### **Question 2 – Other comments**

*Do you have any other comments on the proposals?*

#### **ASB Response:**

- 2 The ASB would suggest that the following matters should be addressed:
  - a) In paragraph D28 of Appendix D (and in paragraph 31C) of the ED, it is not entirely clear what is meant by the term “exchangeability”. If “exchangeability... ..does not exist”, does this mean that ‘exchange rate data does not exist’, and vice versa, or not? This should be clarified.
  - b) The disclosures required by paragraph 31 of the ED should also include specification of the precise time period during which the entity had a functional currency which had both characteristics (a) and (b) (and thus was subject to ‘severe hyperinflation’ as defined in paragraph D28), together with details of the events that determined the start date and end date of that time period.

- c) It is unclear whether the scope of the 'severe hyperinflation' exemption is to apply only to entities that resume reporting under IFRS after a brief period of 'severe hyperinflation' or whether it is intended to be available to any entity that operates in an economy that was previously subject to 'severe hyperinflation', even if the period of 'severe hyperinflation' was in the distant past. The scope of the exemption should therefore be clarified.
  
- d) Paragraph BC13 of the Basis for Conclusions notes that an entity "may elect to apply" the 'severe hyperinflation' exemption and "should not be required to apply the exemption", given that applying other guidance in IFRS 1 "may provide users with more useful information". However, it is unclear whether the exemption may be applied on an item-by-item basis or whether it must be applied to all assets and liabilities collectively. This should be clarified.