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Ref.: ACC/HvD/TS/ID

Dear Ms. Flores,

**Re: FEE Comments on EFRAG's Draft Comment Letter on the IASB Exposure Draft
*Severe Hyperinflation – Proposed amendments to IFRS 1***

- (1) FEE (the Federation of European Accountants) is pleased to comment on the EFRAG Draft Comment Letter on the IASB Exposure Draft *Severe Hyperinflation – Proposed amendments to IFRS 1* (the "ED").
- (2) We are in general agreement with the views expressed by EFRAG in its draft comment letter.
- (3) We support the proposed amendments to IFRS 1 since these will enable additional entities to report under IFRS. However, as noted in Appendix 1, certain aspects of the ED require clarification.
- (4) Further, like EFRAG, we believe that entities affected by hyperinflation encounter many accounting issues when applying IAS 29 *Financial Reporting in Hyperinflationary Economies*. Accordingly, we support EFRAG's suggestion that the IASB should consider a more fundamental review of accounting in hyperinflationary economies.

Our Comments on Appendix 1 of the EFRAG draft comment letter including responses to the questions in the Invitation to comment of ED are contained in the Appendix to this letter.

For further information on this letter, please contact Tibor Siska, Project Manager, at the FEE Secretariat on +32 2 285 40 74 or via email at tibor.siska@fee.be.

Yours sincerely,

Hans van Damme

President

Appendix 1

Question 1

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?

- (5) We support the proposed amendments to IFRS 1 since these will enable additional entities to report under IFRS.
- (6) We believe that the exemption should apply whenever an entity has been subject to severe hyperinflation and continues to hold assets or liabilities acquired during the period of severe hyperinflation. Accordingly, while we agree with EFRAG that it would be useful for the Board to clarify any ambiguity with respect to the scope of entities that would be able to prevail themselves from the exemption, we do not believe that the scope should be limited to entities that resume reporting under IFRS immediately after a period of severe hyperinflation.

Question 2

Do you have any other comments on the proposals?

Application of the exemption

- (7) We agree with EFRAG that the exemption should more clearly articulate to which items the exemption may be applied. Like EFRAG, we believe that the Board should specify whether an entity may elect to apply the exemption only to certain selected items or whether, if applied, the exemption must be applied to all assets and liabilities. In the latter case, it would be necessary for the Board to specify whether an entity should distinguish between assets and liabilities acquired before and after the period of severe hyperinflation.
- (8) We also believe that in order to ensure consistency in application, the amendments should address how the exemption would apply to items that do not have a readily determinable fair value (such as certain intangible assets or assets/liabilities recognised as a result of the straight-lining of lease payments in IAS 17), to goodwill and to equity instruments issued by the first-time adopter.

Application of the exemption

- (9) Like EFRAG, we would expect that the disclosure in proposed paragraph 31C would require an entity to disclose the facts and circumstances that led an entity to apply the exemption. We find the proposed requirements to disclose “how” and “why” the entity was and then ceased to be subject to severe hyperinflation unclear.

Appendix – Comments on Appendix 1 of the EFRAG draft comment letter including responses to the questions in the Invitation to comment of the IASB Exposure Draft *Severe Hyperinflation – Proposed amendments to IFRS 1*

Comparative information

- (10) We question how entities would be able to present comparative information in accordance with IFRSs for periods before the functional currency normalisation date, as specified in proposed paragraph BC15.
- (11) Indeed, the proposed paragraph D30 requires that fair value of assets and liabilities be established **on the date of transition to IFRSs**. Based on the definitions in Appendix A of IFRS 1, this would mean the fair value measured as of the opening of the earliest period presented for comparative purposes. Presumably, an entity subject to severe hyperinflation would not be able to establish fair value reliably before the functional currency normalisation date. Hence, it would not be able to establish IFRSs information before that date. For example, if the functional currency normalisation date is 1 January 2011, presumably the first date on which the entity would be able to establish fair value is 1 January 2011. This would mean that the entity would need to wait until 31 December 2012 in order to present financial statements that include comparative information that is compliant with IFRS.
- (12) The Board should clarify the ambiguity raised by proposed paragraph BC15. It should also clarify whether it intends for entities to wait at least until the following reporting period after the functional currency normalisation date before being able to produce its first IFRS financial statements.