

Technical Accounting Alert

Amendments to IFRS 1

Introduction

The purpose of this alert is to make aware of recent amendments to IFRS 1

Relevant standards

References are made to standards issued by the International Accounting Standards Board. The Australian equivalent to each standard included in this alert is shown below:

International Standard reference	Australian equivalent standard
IFRS 1 First time-adoption of International Financial Reporting Standards	AASB 1 First time-adoption of International Financial Reporting Standards
IAS 39 Financial Instruments: Recognition and Measurement	AASB 139 Financial Instruments: Recognition and Measurement
IAS 29 Financial Reporting in Hyperinflationary Economies	AASB 129 Financial Reporting in Hyperinflationary Economies

Overview

IFRS publishes Sever Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)

The IASB has published two limited amendments to IFRS 1 *First time-adoption of International Financial Reporting Standards*. The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adoption IFRSs for the first time to restate some transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should present financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to sever hyperinflation.

Removal of fixed dates

IFRS 1 already contained exemptions that allowed first-time adopters to apply the derecognition requirements and the 'day 1' gain or loss recognition requirements of IAS 39 *Financial Instruments: Recognition and Measurement* prospectively to transactions occurring on or after 1 January 2004. However, as time passes, this date becomes more remote and so it is increasingly costly for first-time adopters to reconstruct transactions back in time. Consequently, IFRS 1 has been amended to replace the date of 1 January 2004 with the date of transition to IFRSs. This will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs.

Additional exemption after a period of sever hyper-inflation

In a period of severe hyperinflation, an entity cannot company with IAS 29 *Financial Reporting in Hyperinflationary Economies* of a reliable general price index is not available to all entities with that same functional currency, and exchangeability between the currency and a relatively stable foreign currency does not exist.

IFRS 1 now provides guidance on how an entity can present IFRS financial statements after its currency ceases to be severely hyperinflationary. The entity may elect to measure its assets and liabilities at fair value, which could then be used as the deemed cost in its opening IFRS statement of financial position, presented on or after the functional currency normalisation date. This may lead to a comparative period of less than 12 months.

This amendment is available to entities that are emerging from a period of severe hyperinflation; whether or not they had applied IFRSs are effective for annual periods beginning on or after 1 July 2011. Earlier application is permitted.

Grant Thornton comment

We agree with the introduction of these amendments to IFRS 1. The replacement of the fixed date for prospective application of some aspects of AIS 39 with the date of transition to IFRSs will reduce the cost and effort required to apply the detailed rules relating to some aspects of financial instrument accounting.

Although the additional guidance and exemption relating to sever hyperinflation will only impact a small number of entities globally, it provides much needed guidance and relief for those entities.

Further information

For further information on any of the information included in this TA Alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au