



International Accounting Standards Board®

Press Release

For immediate release

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Proposed accounting Interpretation provides clarification on how an entity shall restate its financial statements for the effect of hyperinflation

The International Financial Reporting Interpretations Committee (IFRIC)* has today released a Draft Interpretation—D5 *Applying IAS 29 Financial Reporting in Hyperinflationary Economies for the first time*.

The proposed Interpretation D5 contains guidance on how an entity shall restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency.

The proposal is open for public comment until 14 May 2004.

Introducing the draft Interpretation, Kevin Stevenson, IFRIC Chairman, said:

“In preparing this draft Interpretation, D5, IFRIC is responding to questions from practice in countries affected by hyperinflation. D5 provides practical guidance on the initial application of hyperinflation accounting, including how to restate comparatives and how to calculate opening deferred tax balances. Most significantly, it requires that an entity restates its figures as if it had always restated its financial statements for the effects of inflation.”

Subscribers to the IASB’s Comprehensive Subscription Service can view the draft Interpretation from the secure online services area of the IASB’s Website (www.iasb.org). From 12 March 2004 the complete text of the draft Interpretation will be freely available from the Website.

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* The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

Press enquiries:

Kevin Stevenson, Chairman, IFRIC

Telephone: +44 (0)20 7246 6460, email: kstevenson@iasb.org.

Hans-Georg Bruns, IASB liaison member on the IFRIC

Telephone: +44 (0)20 7246 6410, email: hbruns@iasb.org

Gilbert Gélard, IASB liaison member on the IFRIC

Telephone: +44 (0)20 7246 6410, email: ggelardg@iasb.org

James J Leisenring, IASB liaison member on the IFRIC

Telephone: +44 (0)20 7246 6410, email: jleisenring@iasb.org

NOTES TO EDITORS**About the proposal****D5 Applying IAS 29 *Financial Reporting in Hyperinflationary Economies for the first time***

1. IAS 29 requires that when an entity identifies the existence of hyperinflation in the economy of its functional currency it shall restate its financial statements for the effects of inflation. The restatement approach on which the Standard is based distinguishes between monetary and non-monetary items. However, in practice there has been uncertainty about how an entity shall start restating its financial statements for the first time, especially deferred tax balances and comparatives.
2. The main proposal in the draft Interpretation is that, in the first year an entity identifies the existence of hyperinflation, the entity shall start applying IAS 29 as if it had always applied the Standard. Therefore, an entity recreates an opening balance sheet at the beginning of the earliest annual accounting period presented in the restated financial statements for the first year it applies IAS 29.
3. The draft Interpretation also explains that if detailed records of the acquisition dates of items of property, plant and equipment are not available or capable of estimation, an entity uses an independent professional assessment of the fair value of the items as the basis of their restatement. Equally, if a general price index is not available, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the functional currency and a relatively stable foreign currency when an entity restates its financial statements.

About the IFRIC and the IASB

4. The IFRIC first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about every two months. The IFRIC's principal role is to consider, on a timely basis within the context of existing International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus

on the appropriate accounting treatment. In developing interpretations, the IFRIC works closely with similar national interpretation committees.

5. The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) reside in nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

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