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**Re: Exposure Draft 45 Improvement to IPSAS
Due 6- 30 - 2011**

Comments By: Dr. Joseph S. Maresca CPA, CISA

Background

An entity that prepares and presents financial statements under the accrual basis shall apply this standard to primary financial statements including consolidated financial statements of any entity whose functional currency is that of a hyperinflation economy.

Critique:

Characteristics of the economic environment of a country which indicate the existence of hyperinflation include situations where:

- (1) Consumers prefer to keep wealth in non-monetary assets or in a stable foreign currency. i.e. Jersey Pound
Amounts of local currency held are immediately invested to maintain purchasing power .
- (2) Consumers regard monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.
- (3) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power .
- (4) Interest rates, wages, and prices may be linked to a price index .
- (5) The cumulative inflation rate over the intermediate term 1-3 years approaches, or even exceeds, 100% or more.

Hyperinflation is high inflation or very high, rapid monetary inflation great enough to undermine a nation's economic stability. Hyperinflationary candidate countries at one time or another have included:

Zimbabwe
Democratic Republic of Congo
Ethiopia
Guinea
Sao Tome and Principe

There was severe hyperinflation in Zimbabwe while there was exchangeability with at least a relatively stable foreign currency like the British Pound . When exchangeability ceased , prices could not be set in the Zimbabwe currency and severe hyperinflation stopped. When there is no exchangeability , there can be no severe hyperinflation .

Hyperinflation becomes visible when there is an unchecked increase in the money supply . For instance, hyperinflation in Zimbabwe was accompanied by a widespread reluctance on the part of the local citizenry to hold the hyperinflationary money. The reluctance to hold was for more than the time needed to trade it for non-monetary assets to avoid further erosion of real value. Hyperinflation is often associated with currency meltdowns, social upheavals, or aggressive currency manipulation usually by insiders or speculators.

Changes to existing IPSAS documents include:

IPSAS 16 delete references to exchange of assets lacking commercial substance as investment properties.

IPSAS 17 Property, Plant and Equipment (PPE) delete references to exchanges of assets which lack commercial substance as a PPE.

IPSAS 19 - Contingent liabilities delete references to insurance entity and amend references to exclusion of financial instruments under IPSAS 29.

IPSAS 21 proposed amendments IPSAS 26.25 (e) indicator of impairment when the asset useful life is reassessed as finite versus infinite.

I concur.