



## Heads Up

# Financial reporting implications of the Eurozone Crisis

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#### **“In summary”**

The purpose of this communication is to highlight some of the key issues emerging from the ongoing Eurozone crisis that need to be considered by Australian entities preparing their financial statements for periods ending on or after 30 June 2012.

Continued uncertainty about the situation in Greece and other economies in the Eurozone, such as Ireland, Italy, Portugal and Spain, along with weaker economic conditions in Europe and elsewhere, raises a number of challenging financial reporting issues.

The financial reporting considerations discussed below address the issues which might be encountered by Australian entities when they either invest in or trade with entities with the Eurozone both when the membership in the Eurozone of a particular country remains unchanged as well as when such a country might exit from the Eurozone.

Below are some of the broad critical financial reporting issues which Australian entities should consider in context of the Eurozone crisis:

- Potential impairment of non-financial assets in subsidiaries based in Eurozone countries specifically Greece, Ireland, Italy, Portugal and Spain which have high levels of public debt and are pursuing policies to manage their debts and deficits
- Impairment/change in fair value measurements of financial assets such as investments, loans and derivatives
- Consideration of wider economic impact may impact going concern basis of accounting
- External events and circumstances should be considered in assessing whether assumptions and estimates made in the previous year for various accounting purposes such as deferred taxes, defined benefits costs and determination of contingent liabilities and provisions remain appropriate or not.

In addition to the above, there are certain specific issues which may arise if a particular country exits the Eurozone. These issues include:

- Gains or losses arising due to change in functional currency or redenomination of contracts and consequent restatement of comparatives if a particular country exits the Eurozone
- Reassessment of functional currencies for entities higher or lower up in the group (based on the extent of influence/impact the entity based in country exiting the euro has on the group)
- Failure of hedge accounting or high ineffectiveness due to change in functional currency
- Offsetting arrangements may no longer be subject to offset if two legs of the transactions become subject to different laws due to redenomination
- Reassessment of financial liability/equity classification of convertible bonds originated in Euro redenominated to a different currency
- Remeasurements of financial guarantee contracts due to increasing probability of the guarantor being called upon to pay under the guarantee
- Reassessment of control over subsidiaries, joint control over a joint venture or significant influence over an associate for example due to action of government or courts in response to exit from Euro
- Impact on current/non-current classification of debt due to breaches of covenants and possible imposition of capital controls on deposits and cash balances within the country exiting the Euro
- Possible revisions of operating segments
- Litigation costs around redenomination of contracts may require additional provisioning/disclosure of contingent liabilities
- Revenue recognition (specifically construction and supply contract and lease arrangements) and provisioning of receivables pertaining to sales made to government and government supported entities in the country exiting the euro
- Measurement and recognition of deferred tax assets and liabilities due to the impact on future profits, deductibility of losses and repatriation of profits
- Defined benefit scheme assets and obligations may be altered due to redenomination and alternation of discount rates.

## Deloitte Publications

You can find more details on these issues in the below Deloitte publications:

- [Turbulent times: Financial reporting considerations arising from the Eurozone crisis](#)
- [Exiting the Euro: Financial reporting implications of a country's exit from the Eurozone.](#)

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