ERNST & YOUNG

**Ernst & Young Global Limited**
Becket House
1 Lambeth Palace Road
London SE1 7EU

Phone: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275

www.ey.com

Ms. Patrina Buchanan
Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

31 October 2005

Direct Line: 020 7980 0106
e-mail: dlindsell@uk.ey.com

Dear Ms Buchanan

**Draft Technical Correction 1: DTC 1 Proposed Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* Net Investment in a Foreign Operation**

The global organisation of Ernst & Young is pleased to submit its comments on the DTC 1 proposed amendments to IAS 21.

We agree with the proposed amendment to paragraph 33 of IAS 21 whereby exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are to be recognised initially in a separate component of equity in the consolidated financial statements irrespective of the currency of the monetary item. We disagreed with the introduction of this restriction in IAS 21 when it was originally proposed in the Exposure Draft issued as part of the Improvements Project and therefore we welcome this change.

We also welcome the clarification that the requirement applies irrespective of whether the monetary item results from a transaction with the parent or with any of its subsidiaries as this is in line with our interpretation of IAS 21 as it currently stands. We note however that the wording of the amended paragraph 33 makes no reference to transactions involving a subsidiary of the reporting entity. We believe that the paragraph should be expanded to deal explicitly with such transactions.

The final sentence of the new paragraph 15B categorically states that a monetary item that is payable to an associate by the reporting entity or any of its subsidiaries shall not form part of the reporting entity's net investment in a foreign operation. We disagree with this proposal. Although we accept that this would generally be the case, we believe that there could be situations whereby an amount payable to an associate by the reporting entity does represent an item for which settlement is neither planned nor likely to occur in the foreseeable future, and therefore see no reason why it should not be accounted for as part of the reporting entity's net investment in that associate. For example, it may be that an entity does not pay dividends to its shareholders, but 'lends' surplus cash up to its shareholders on similar terms. It would be incongruous for a parent of such an entity to account for the amount payable as part of its net investment in its subsidiary if it was considered that settlement was neither planned nor likely to occur in the foreseeable future, but, at the same time, another entity that accounts for its investment in the same entity as an associate could not. We also do not consider that paragraph BC7 adequately explains why this change was necessary.

The proposed amendments to paragraph 29 of IAS 28 appear not to be consequential upon the correction to IAS 21, as paragraph 29 of IAS 28 relates to associates as a whole and not to foreign operations. Further, we do not understand why loans may not be part of a net investment in an associate (as per the proposed amendment to paragraph 29 of IAS 28) when they may be part of a net investment in a foreign operation under paragraph 15 of IAS 21, or why trade payables may be part of a net investment in an associate (as per the proposed amendment to paragraph 29 of IAS 28) when they may not be part of a net investment in a foreign operation under paragraph 15 of IAS 21.

Should you wish to discuss any aspect of this letter, please contact David Lindsell on 020 7980 0106.

Yours faithfully

Ernst & Young