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Patrina Buchanan
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International Accounting Standards Board
30 Cannon Street
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26 October 2005

Dear Mrs Buchanan

Draft Technical Correction DTC 1: Proposed amendments to IAS 21 – Net Investment in a Foreign Operation

We are responding to your invitation to comment on the above draft Technical Correction on behalf of the worldwide organisation of PricewaterhouseCoopers.

We welcome the Board's decision to revise the guidance in IAS 21 regarding the treatment of exchange differences on monetary items that are part of a reporting entity's net investment in a foreign operation.

Subject to the comments below, we support the proposals in the draft Technical Correction.

We encourage the Board to publish the final Technical Correction as soon as possible and in any event before the end of 2005.

Monetary items held by associates or joint ventures

The draft Technical Correction proposes to exclude monetary items payable to associates from the intra-group monetary items that may form part of a reporting entity's net investment. Paragraph BC7 explains that this is because of concerns that the requirements of paragraph 15 – that is, the monetary item is not planned or likely to be settled in the foreseeable future – cannot be met if the reporting entity does not control the lending entity.

We do not agree with the proposed restriction described above, because we believe that the Board's concerns as explained in paragraph BC7 are already addressed by the principle set out in paragraph 15. We believe no further rules are needed for when monetary items held by associates could qualify for net investment accounting.

The proposed restriction would prevent the use of net investment accounting in circumstances that would meet the requirements of paragraph 15. For example, certain financial instruments (such as perpetual debt instruments or perpetual preference shares with mandatory dividends) that are treated as liabilities under IAS 32 meet the 'permanency' criteria of paragraph 15 through the contractual agreements between the parties rather than by control of the creditor entity.

We recommend paragraph 15 be changed to refer to 'a reporting entity or any of its subsidiaries, joint ventures, associates or branches' and the consequential amendments to IAS 28 would not be necessary.

The draft Technical Correction does not explain whether this proposed restriction also applies to investments by joint ventures in a foreign operation. Consistent with our view on investments by associates in a foreign operation, we believe that the requirements of paragraph 15 should be the only restriction for net investment accounting.

We note that the Technical Correction will only achieve full convergence with the equivalent guidance under US GAAP, if the above comment is taken into consideration. We support convergence with US GAAP in this area.

Drafting points

If the Board does not take on our comment, we believe that paragraph 15 should be amended to clarify the treatment of branches and to achieve consistency with paragraph 15B. We propose the following wording (new text underlined) for paragraph 15:

'A reporting entity or any of its subsidiaries or branches may have a monetary item that is receivable or payable to a foreign operation. Subject to paragraph 15B, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation and is accounted for in accordance with paragraphs 32 and 33. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.'

If the Board does not take on our comment, we also propose to change the wording of paragraph 15B, because the first sentence could be read as if the paragraph would refer only to circumstances where the associate is a foreign operation. We propose the following wording (new text underlined) for the first sentence of paragraph 15B:

'An associate may be a foreign operation or may have amounts due from or payables to a foreign operation.'

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If you have any questions in relation to this letter please do not hesitate to contact John Brendon, PwC Global Chief Accountant (+44 20 7804 4816), or Ian Wright (+44 20 7804 3300).

Yours sincerely

PricewaterhouseCoopers LLP