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27 October 2005

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

By email: commentletters@iasb.org

Dear Patrina

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

We appreciate the opportunity to comment on the Draft Technical Correction 1: *Proposed Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation*. Our comments have been prepared in consultation with members through our Asia-Pacific Financial Reporting Advisory Group (APFRAG) which is a board committee representing a regional perspective from South-East Asia, Oceania and Australasia.

Overall we are in agreement with the proposals but question whether these proposed changes constitute a technical correction or an amendment to a standard.

Our detailed comments are attached to this letter.

Should you have any queries on our comments please contact Ms Sepi Roshan, CPA Australia's Financial Reporting and Governance Policy Adviser at email: sepi.roshan@cpaaustralia.com.au.

Yours sincerely

Peter Lowe CPA
Chief Executive

Copy: Sepi Roshan
David Boymal

CPA Australia comments on Draft Technical Correction 1: *Proposed Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation*

Question 1

Do you agree with the proposals in this draft Technical Correction? If not, why not? What changes do you propose and why?

CPA Australia agrees that the treatment of foreign currency exchange differences in the consolidated financial statements should not be determined by the functional currency or on which entities within a group are transacting. Therefore, we agree with the proposed amendments as they promote consistency.

Question 2

Do you have any other comments on the proposals?

CPA Australia has the following comments regarding this Draft Technical Correction.

Consistency of IAS 28 *Investments in Associates*

We are wondering why IAS 28.29 has been amended to take out loans, as this seems inconsistent with the requirements in IAS 21.15.

Technical correction vs amendment

We agree with the sentiments in the Draft Technical Correction paragraphs BC5 and BC6 and see these proposed changes as "an amendment to IAS 21" (paragraph BC6). Based on our understanding of the IASB's (Proposed) Policy on Technical Corrections which was recently exposed, we are concerned that these proposed changes do not constitute a technical correction to a standard, but an amendment to a standard. Our understanding is that technical corrections represent changes that clarify the Board's intentions on a particular matter, including addressing unintentional consequences. We believe that this Draft Technical Correction is going beyond the mandate that the IASB has set in its proposed policy. While the proposed treatment is acceptable, we question whether this is an amendment to a standard rather than a technical correction.

We therefore would like the IASB to clarify what is meant when they refer to "the Board's intention" in paragraph 1 of the IASB's (Proposed) Policy on Technical Corrections. In our view, the current requirements in IAS 21.33 clearly require that where the functional currency is different to that of the reporting entity and the foreign operation, exchange difference are to "remain recognised in profit or loss" in the consolidated financial statements. Unless the Board's intention was for these words to mean that this exchange difference should have been taken to a component in equity (and we cannot see how this could be), then we see these proposals as an amendment to a standard. As such, these proposed changes would necessarily go through a different due process.

In Australia for example, under previous GAAP, such exchange differences were taken to equity in the consolidated financial reports (AASB 1012.6.8[1]). However, since the adoption of the requirements of IAS 21, a change in treatment was required as we believe there is an unambiguous requirement to take such exchange differences through the profit and loss. In our view, the current proposed changes would therefore result in another change in treatment (ie: taking these changes to equity), not merely a clarification or confirmation of current treatment required under IAS 21.

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[1] AASB 1012 *Foreign Currency Translation.*

Finally, we also question how the IASB can produce a Draft Technical Correction, when its policy on technical corrections has yet to be finalised. We note that comments for the IASB's (Proposed) Policy on Technical Corrections closed on 30 September 2005 and that the IASB plans to redeliberate it at its November 2005 meeting.

Other

In reviewing the Draft Technical Correction to IAS 21, our members have raised concerns about fundamental issues which they would like reviewed by the IASB. Such issues include the assumption that the functional currency of a parent and an integral foreign operation are always the same, and the seemingly contradictory requirements in paragraphs BC6 and BC9 of IAS 21 – that is, we believe that IAS 21 should explicitly allow the criteria of being an integral operation in the determination of functional currency, as done in FAS 52 *Foreign Currency Translation*.

Our members would also like clarification of the transitional provisions regarding the proposed IAS 21. That is, if there is a new functional currency being used when the amended IAS 21 is applied, whether this would be considered a change in accounting policy (retrospective application) or a change in functional currency (prospective application).

Given our view that the proposed changes to IAS 21 do not constitute a technical correction, we suggest that as part of the amendments being proposed to IAS 21, the IASB also consider the issues raised by our members.