Australian Government

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Ms Patrina Buchanan
Project Manager
International Accounting Standards Board
30 Cannon Street
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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***

Thank you for the opportunity to comment on Draft Technical Correction 1.

Technical merits of the amendment

The AASB supports the proposed amendment from a technical point of view and considers that it represents an improvement over the existing requirement that a monetary item can only form part of a net investment in a foreign operation when it is denominated in the functional currency of the reporting entity or the foreign operation.

Process issues

The AASB considers that it is highly inappropriate for the IASB to propose the amendment before the IASB has finalised its process for dealing with technical corrections. The AASB provided comments on the *Proposed IASB Policy on Technical Corrections* in a letter dated 12 September 2005 that outlined a number of serious concerns with the proposed process.

Technical Correction 1 threatens to give rise to the very problems that we warned about in our September submission to the IASB.

In our letter we highlighted the potential problems with retrospective application of changes to IFRS. It seems that the IASB intends that an amended IAS 21 *The Effects of Changes in Foreign Exchange Rates* would apply retrospectively with immediate effect as if the amendment had always applied. An entity affected by the change would need to recalculate the relevant amounts as if the new policy had always applied and this seems unreasonable at this late stage of implementing IFRS for 2005.

If the amendment is made, depending on when it is finalised, the AASB may not be able to make the same amendment in Australian equivalents to IFRSs in a timeframe that requires or even allows entities affected by the change to be IFRS compliant for 2005. The AASB standards are delegated legislation and the AASB is prohibited from making standards that have retrospective application. Even if the IASB were to manage to make the proposed change before the end of December, the need to promulgate the change before the end of the year imposes an enormous burden on the AASB. The IASB's proposals show a complete disregard for any processes that the AASB, or any other standard setter, may need to take to implement the change.

Accordingly, Technical Correction 1 threatens to unwind the whole notion of Australian entities being able to make an unreserved statement of compliance with IFRSs.

The nature of a technical correction

As the AASB noted in its submission on the *Proposed IASB Policy on Technical Corrections*, some of the matters that might be classed as technical corrections could give rise to a major problem for the AASB since we must undertake a formal process for amending standards for matters other than purely editorial corrections.

In our submission we noted our particular concerns about what might be classed as a technical correction. We regard the proposed change to IAS 21 as a substantial recognition and measurement change. If it represents a typical example of what might be regarded by the IASB as a technical correction, we consider that our fears about the proposed policy, expressed in our submission to the IASB dated 12 September 2005, will be realised.

The *Proposed IASB Policy on Technical Corrections*, states:

> A technical correction addresses an issue for which it is clear that the words in a standard do not properly convey the Board's intention, even when considered with the basis for conclusions and any related guidance. A technical correction may also address unexpected consequences of a standard that the Board would have corrected, had it been aware of them when the standard was issued.

Given that the existing words in IAS 21 are clear, and unambiguously convey the IASB's intentions, the proposed amendment to IAS 12 presumably falls into the category of "unexpected consequences".

The AASB considers it anomalous that the IASB would address this particular unexpected consequence as a technical correction when many other IFRS requirements have had unexpected consequences that the IASB insists on addressing with a full due process. I include in this category the issues of limited life entities and puttable instruments at fair value.

The AASB considers that the process adopted by the IASB for making the proposed change to IAS 21 is completely inappropriate and unacceptable. The AASB urges the IASB to finalise its technical corrections policy in a manner that is sympathetic to the AASB's concerns and to reconsider treating the amendment to IAS 21 as a technical correction.

Yours sincerely

David Boymal

David Boymal
Chairman