

IAS 21 *The Effects of Changes in Foreign Exchange Rates* (September 2010)

Repayments of investments and foreign currency translation reserve

The Committee received a request for guidance on the reclassification of the foreign currency translation reserve (FCTR) when a repayment of a foreign investment occurs. The request specifically sought guidance on whether FCTR should be recycled for transactions in which there is a reduction in:

- the investor's percentage equity ownership in the investee (a relative reduction); or
- the absolute investment in the investee, even if there is no reduction in the proportionate equity ownership interest. A reduction in ownership may be relative, absolute or both.

The Committee noted that paragraph 48D of IAS 21 requires that an entity must treat 'any reduction in an entity's ownership interest in a foreign operation' as a partial disposal, apart from those reductions in paragraph 48A that are accounted for as disposals. How an entity applies the requirements in paragraph 48D is largely dependent on whether it interprets 'any reduction in an entity's ownership interest in a foreign operation' to mean an absolute reduction, a proportionate reduction, or both

The Committee considers that different interpretations could lead to diversity in practice in the application of IAS 21 on the reclassification of the FCTR when repayment of investment in a foreign operation occurs. However, the Committee [decided] neither to add this issue to its agenda nor to recommend the Board to address this issue through *Annual Improvements* because it did not think that it would be able to reach a consensus on the issue on a timely basis. The Committee recommends that the IASB should consider this issue within a broad review of IAS 21 as a potential item for its post-2011 agenda.