

Mr Robert Garnett  
Chairman  
International Financial Reporting Interpretations Committee  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

12 February 2010

Dear Mr Garnett,

**Tentative agenda decision: IAS 21 The Effects of Changes in Foreign Exchange Rates – Determination of functional currency of an investment holding company**

We are responding to your invitation to comment on the above tentative agenda decision, published in the January 2010 IFRIC Update, on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the tentative agenda decision. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We do not agree with the IFRIC's decision not to take this issue onto its agenda as we believe that there is diversity in practice regarding how investment holding companies should be viewed in relation to their subsidiaries and the relevance of IAS 21.9 to them.

IAS 21 is written primarily in the context of determining the functional currency of an operating entity, as evidenced by the examples of indicators listed in paragraph 9: sales prices; labour costs; raw material costs; other costs of providing goods and services. Some preparers and auditors have therefore concluded that consideration of the primary indicators arising from IAS 21.9 is neither relevant nor required for investment holding companies, as they do not have trading or manufacturing activities. Proponents of this view believe that only the secondary, financing indicators in IAS 21.10 are relevant for investment holding companies without their own substantive operations.

Others, however, believe that IAS 21.9 requires all entities (including investment holding companies) to assess the primary economic environment in which the entity normally generates and expends cash. For an investment holding company this typically would be the currency of the economic environment that determines the entity's dividend income (cash flows) from subsidiaries. Furthermore, some also believe the guidance in IAS 21.11 related to situations where a subsidiary is viewed as an extension of the parent should be applied by analogy to situations where the investment holding company does not have substantive operations apart from its subsidiaries.

We note that the agenda request was set in the context of an entity with all its subsidiaries' operations in the People's Republic of China, but with the investment holding company itself being domiciled in an offshore location. We believe whether the investment holding company should be viewed as an extension of its subsidiaries and/or whether IAS 21.9 applies to such companies are fundamental questions capable of resolution through an interpretation of the principles underlying the determination of an entity's functional currency, rather than being an area of management judgment. We believe that such an interpretation would help eliminate the diversity in interpretation of IAS 21 vis-à-vis investment holding companies that currently exists in practice.

It is also important to note that the scenario raised by the staff in their discussion paper is different from the fact pattern in the agenda request. The staff described a situation where there are mixed indicators because the investment holding company has multiple subsidiaries with different functional currencies. Determining the functional currency when there is mixture of indicators is an area that requires significant judgment and one that IFRIC should not specifically address. However, before that judgment can be applied there is still a need to understand the relevancy of the factors related to the subsidiaries in making this determination.

Should the IFRIC decide not to take this issue onto its agenda, we would encourage the IFRIC to recommend that the Board amend IAS 21 as part of the annual improvements process to more clearly address how IAS 21 should be applied to investment holding companies.

If you have any questions in relation to this letter please do not hesitate to contact Richard Keys (020 7212 4555) or John Althoff (020 7213 1175)

Yours sincerely

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