



Project	Agenda decision
Topic	IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> - Determining the functional currency of an investment holding company

Introduction

1. In January 2010, the IFRIC published a tentative agenda decision not to add to its agenda a request for guidance on whether the underlying economic environment of subsidiaries should be considered in determining, in its separate financial statements, the functional currency of an investment holding company.
2. The IFRIC concluded that the agenda criteria were not met, since any guidance it could provide would be in the nature of application guidance, rather than an interpretation.

Comment letter analysis

3. Two comment letters were received. The first comment letter¹ disagrees with the tentative agenda decision, and requests that the IFRIC reconsider whether to add the issue to its agenda.
4. In this letter, the respondent raises two concerns. Firstly, that the IFRIC ‘did not address the specific fact pattern’ as stated in the original request for interpretation received. In response, the staff highlights that the original request (submission) is reproduced in Appendix A to agenda paper 13. The staff

¹ Deloitte Touche Tohmatsu

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Decisions made by the IFRIC are reported in *IFRIC Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

believes the essence of the question in the original request was considered in the staff paper and in the IFRIC discussion.

5. Secondly, the respondent states that the functional currency of the holding company cannot be determined when evidence to assess the primary indicators per IAS 21.9 is not present. The second respondent² also held this view, writing that ‘IAS 21 is written primarily in the context of determining the functional currency of an operating entity’, and that the assessment of the primary indicators was not relevant for a non-trading or non-manufacturing entity.
6. In response, the staff notes that, for an investment company, evidence for assessing the sales and cash flows indicator may be scant; however there will usually be evidence to assess the expenses indicator. Investment holding companies incur operating costs, albeit such costs are not always significant. Paragraph 12 of IAS 21 states that when the indicators in paragraphs 9 (primary indicators), 10 (secondary indicators) and 11 (additional factors) are mixed and the functional currency is not obvious, management must use judgement to decide which currency most faithfully represents the economic effects of the underlying transactions, events and conditions.
7. In addition, paragraph 17 of IAS 21 requires that an entity determine its functional currency in accordance with paragraphs 9 – 14 of the standard. Therefore, paragraph 9 cannot be considered in isolation when determining the functional currency of an entity. The staff think perhaps adding this wording to the proposed agenda decision may be helpful.
8. The staff recommend that the IFRIC finalise its tentative agenda decision not to add the issue to its agenda. The staff are aware that there is diversity in practice in this area; a point reiterated in the two comment letters. However, determining the functional currency of an investment holding company is an area where judgement is required, and the staff does not think any guidance can be given which is not application guidance that relates to a particular set of facts and circumstances.

² PricewaterhouseCoopers

Questions for the IFRIC

Question 1 - Does the IFRIC agree with the staff's recommendation in paragraph 8?

Question 2 – Appendix A includes the staff's amended proposed wording for the final agenda decision. Does the IFRIC agree with proposed wording?

Appendix A – Proposed wording for agenda decision

A1 The staff proposes the following wording for the **final** agenda decision (new text is underlined).

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

The IFRIC received a request for guidance on whether the underlying economic environment of subsidiaries should be considered in determining, in its separate financial statements, the functional currency of an investment holding company.

IAS 21 paragraphs 9 – 11 provide factors to be considered in determining the functional currency of an entity. Paragraph 12 states that when the ‘indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions’. In addition, paragraph 17 of IAS 21 requires that an entity determine its functional currency in accordance with paragraphs 9 – 14 of the standard. Therefore, paragraph 9 should not be considered in isolation when determining the functional currency of an entity.

Consequently, how an entity applies IAS 21 for the purpose of determining its functional currency - whether it is an investment holding company or any other type of entity - requires the exercise of judgement. IAS 1 *Presentation of Financial Statements* requires disclosure of significant accounting policies and judgements that are relevant to an understanding of the financial statements.

The IFRIC noted that any guidance it could provide would be in the nature of application guidance rather than an interpretation. Therefore, the IFRIC [decided] not to add the issue to its agenda.