

From: RealValueAccounting.ComTheBook [realvalueaccounting@yahoo.com]

Sent: 31 October 2005 20:27

To: Commentletters

Subject: Comment regarding DTC 1

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31 October 2005

Patrina Buchanan
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Patrina Buchanan,

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

Comment to Question 1:

I do not agree with the proposals in DTC 1.

My comments relate to paragraphs 15 and 33.

In both paragraphs the term monetary item is used in relation to foreign exchange values. Foreign exchange values are not monetary items but non-monetary items in terms of the definition of monetary items being functional currency units held and accounted monetary values only of the functional currency and not of non-monetary items expressed in terms of units of the functional currency.

Monetary items pertain only to money and monetary values. A monetary unit has three functions in an economy, namely medium of exchange, store of value and unit of account. A unit of foreign currency does not fulfil all three functions of money in the internal economy. A monetary unit's real value is determined by the rate of inflation, hyperinflation or deflation as indicated by the change in the Consumer Price Index. A foreign exchange currency's value is determined continuously in the foreign exchange markets.

The functional currency is the monetary unit of account of the principal economic environment in which an economic entity operates. The essential feature of a monetary item is that it is a functional currency unit or a functional currency value

that only pertains to the functional currency. Actual monetary units cannot be updated and actual accounted monetary values are not updated. Monetary values have the exact same attributes as money held with the single exception that they are accounted monetary values and not actual bank notes or bank coins. A monetary item never has a micro-economic non-monetary base during its entire economic life in our modern economies where our functional currency has no intrinsic value. A monetary item cannot be the accounted value of a non-monetary item in any way or form in an economy with fiat money.

Non-monetary items have monetary values because they are accounted in terms of a monetary unit of account. Non-monetary items thus have monetary values but they are not monetary values in an economy where the functional currency has not intrinsic value.

The alternative I propose for the Board to consider is the following: Substitute the word **monetary** in paragraphs 15 and 33 with the word **non-monetary**. The reasons I propose this change are explained in the paragraphs above.

Respectfully yours,

Nick Smith

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