IASB amends standard on foreign exchange rates

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The International Accounting Standards Board (IASB) today issued a limited amendment to International Accounting Standard (IAS) 21 *The Effects of Changes in Foreign Exchange Rates*. The amendment clarifies the requirements of IAS 21 regarding an entity's investment in foreign operations and will therefore help the financial reporting of entities that invest in businesses operating in a currency different from that used by the entity.

Earlier this year companies and other constituents expressed concern about problems in implementing IAS 21, which was revised in 2003 but became mandatory only in 2005. In particular, IAS 21 required different accounting depending on the currency in which a monetary item was denominated, specifically where such an item was regarded as part of an entity's investment in a foreign operation. Secondly, IAS 21 was not clear on whether any member of a consolidated group could enter into the monetary transaction with the foreign operation. In response to these concerns the IASB developed an amendment on a fast-track basis to enable entities to take advantage of the improvement in financial reports for 2005.

Introducing the amendment, Sir David Tweedie, IASB Chairman, said:

> This document is a good example of the Board responding quickly to deal with a practical problem of implementation that constituents have identified. We believe that this amendment will benefit those many companies around the world that invest in operations outside their own jurisdictions.

The primary means of publishing proposed standards and amendments to standards is by electronic format through the IASB's subscriber Website. Subscribers are able to access today's publication through 'online services'. Those wishing to subscribe should contact:

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About the Amendment

1 IAS 21 The Effects of Changes in Foreign Exchange Rates was issued by the IASB in 2003 as part of the IASB's project to improve many of the standards issued by its predecessor body. Earlier this year, constituents expressed concern that IAS 21 gave rise to results that were counter-intuitive and was not clear about the accounting for a net investment in a foreign operation.

2 In particular, IAS 21 required different accounting depending on the currency in which a monetary item was denominated, specifically where such an item was regarded as part of an

entity's investment in a foreign operation. Secondly, IAS 21 was not clear on whether any member of a consolidated group could enter into the monetary transaction with the foreign operation.

3 In response to these concerns, the IASB reviewed aspects of IAS 21. As regards a monetary item that forms part of an entity's investment in a foreign operation, the IASB concluded that the accounting treatment in consolidated financial statements should not be dependent on the currency of the monetary item, nor on which entity within the group conducts a transaction with the foreign operation. On 30 September the IASB published for public comment its proposal to amend IAS 21. Having considered the comments subsequently received the IASB confirmed the amendment and decided that it should be made available for adoption with immediate effect when issued.

NOTES TO EDITORS

About the IASB

4 The International Accounting Standards Board (IASB), based in London , began operations in 2001. Contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations fund the operations of the IASB. The 14 Board members (12 of whom are full-time) are drawn from nine countries and have wide international experience and a variety of functional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

5 A Deloitte & Touche study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia, New Zealand, the Philippines and Singapore , base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards. In January 2005 the two boards announced their agreement to launch a joint project to reduce differences between IFRSs and Japanese accounting standards, and in March the boards met to decide on the initial programme of work for the project. The Canadian Accounting Standards Board has proposed that Canadian standards for public companies should converge with IFRSs over a five-year transitional period. In November 2005 representatives of the China Accounting Standards Committee of the People's Republic of China and the IASB met in Beijing to discuss the convergence of Chinese accounting standards with IFRSs.