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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
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commentletters@iasb.org

Dear Sir David

DTC 1 Proposed Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* - Net Investment in a Foreign Operation

Deloitte Touche Tohmatsu is pleased to comment on DTC 1 Proposed Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* - Net Investment in a Foreign Operation ('DTC 1' or 'the draft Technical Correction').

Question 1

Do you agree with the proposals in this draft Technical Correction? If not, why not? What changes do you propose and why?

We concur with the proposed amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* (IAS 21) on the basis that the accounting treatment in the consolidated financial statements should not be dependent on the currency in which the monetary item is denominated, nor should it be dependent on which entity within the group transacts with the foreign operation.

We have reasoned that the deletion of the words "or loans" in paragraph A1 (draft amendments to IAS 28) was intended to remove the possibility of interpreting "loans" as loans from associates to investors, which according to paragraph 15B would not form part of the reporting entity's net investment. If our reasoning is indeed correct, we are concerned that it may not be obvious to all constituents and therefore encourage the International Accounting Standards Board (IASB) to include in the Basis for Conclusions, the reasoning for this amendment.

The guidance material in paragraph A1 (IAS 28.29) covering examples of items considered to be part of a net investment (see third sentence of that paragraph) should also be included in paragraph 15B of IAS 21 as it seems relevant to the amendments proposed in IAS 21. Thus, we suggest the following change to paragraph 15B (addition underlined):

> An associate may be a foreign operation. A reporting entity or any of its subsidiaries may have a receivable from such an associate that is, in substance, a part of the net investment in that foreign operation, if it meets the condition in paragraph 15. <u>Such items may include preference shares and long-term receivables but do not include trade receivables or any long-term receivables for which adequate collateral exists, such as secured loans.</u> A monetary item that is payable to an associate by the reporting entity or any of its subsidiaries shall not form part of the reporting entity's net investment in a foreign operation.

Question 2

Do you have any other comments on the proposals?

DTC 1, if finalised in its current form, requires entities to apply the amendments retrospectively from the date the amendment is issued. We refer to our comments on the IASB's *Proposed Policy on Technical Corrections* in a letter dated 29 September 2005, in which we expressed concern about the burden placed on reporting entities as a direct result of errors or omissions made by the IASB. We acknowledge that the IASB has to balance between requirements that ensure comparability in financial reporting and those for which the benefits out way the costs for preparers. In order to demonstrate to constituents that the IASB has thoroughly analysed this issue, we encourage the IASB to include in the Basis for Conclusions, its reasoning in requiring retrospective application.

If you have any questions concerning our comments, we would be pleased to discuss them.

Sincerely,

Ken Wild
Global IFRS Leader