

Financial Reporting Advisory Board Paper

SECRETARIAT PAPER

IAS 21: The effects of changes in foreign exchange rates and SIC 7: Introduction of the Euro

Issue:	Including IAS 21 <i>The effects of changes in foreign exchange rates</i> and SIC 7 <i>Introduction of the Euro</i> in the IFRS-based FReM.
Impact on guidance:	The proposed text in Annex A relates to the IFRS-based FReM.
IAS/IFRS adaptation?	No
IPSAS compliant?	N/A
Interpretation for the public sector context?	Yes – The presentational currency will be the same as the functional currency (i.e. pounds sterling).
Impact on budgetary regime?	No
Alignment with National Accounts	N/A
Impact on Estimates?	No
Recommendation:	The Board is invited to approve the text to include IAS 21 and SIC 7 in the IFRS-based FReM.
Timing:	Not yet known: depends on future decision on date for moving to EU-adopted IFRS.

DETAIL

Background

1. At its meeting on the 28 January 2005, the Board approved amendments to the FReM to implement FRS 23 (IAS 21) *The effects of changes in foreign exchange rates* (FRAB (71) 03). This

paper asks the Board to approve the FReM text, amended for references to IAS 21, for inclusion in the IFRS-based FReM.

Interpreting IAS 21

2. IAS 21 will be interpreted in the same way as FRS 23 – in that the presentational currency will be the same as the functional currency (i.e. pounds sterling).

SIC 7

3. The Interpretation addresses how the introduction of the Euro, resulting from the European Economic and Monetary Union, affects the application of IAS 21. SIC 7 states that the requirements of IAS 21 should be strictly applied when a country joins the EU's Economic and Monetary Union.

4. This paper proposes text on SIC 7 for inclusion in the IFRS-based FReM.

Summary and recommendation

5. The Board is invited to approve the text on IAS 21 and SIC 7 for inclusion in the IFRS-based FReM.

Larry Pinkney
FRAB Secretary
October 2006

PROPOSED TEXT FOR THE IFRS-BASED GOVERNMENT FINANCIAL REPORTING MANUAL

IAS 21 The effects of changes in foreign exchange rates and SIC 7: Introduction of the Euro

Applicability

IAS 21 and SIC 7 apply in full.

Objective of IAS 21

The objective of IAS 21 is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in financial statements.

Interpretation of IAS 21 for the public sector context

The presentational currency will be the same as the functional currency (i.e. pounds sterling).

SIC 7 Consensus

The requirements of IAS 21 regarding the translation of foreign currency transactions and financial statements of foreign operations should be strictly applied to the changeover to the Euro.