COMMISSION REGULATION (EC) No 708/2006

of 8 May 2006

amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 21 and International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 7

(Text with EEA relevance)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards [1], and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1725/2003 [2] certain international standards and interpretations that were extant at 14 September 2002 were adopted.

(2) On 24 November 2005, the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*, hereinafter 'IFRIC 7'. IFRIC 7 clarifies the requirements under IAS 29 *Financial Reporting in Hyperinflationary Economies* relating to issues that companies had regarding how a company should restate its financial statements pursuant to IAS 29 in the first year it identifies the existence of hyperinflation in the economy of its functional currency.

(3) On 15 December 2005, the International Accounting Standards Board (IASB) issued Amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation*, to clarify its requirements regarding an entity's investment in foreign operations. Companies had raised concerns relating to loans that form part of a company's investment in a foreign operation as IAS 21 included provisions requiring the loan to be denominated in the functional currency of either the company or the foreign operation in order that the exchange differences arising could be recognised in the equity section of the consolidated financial statements. However, in practice the loan may be denominated in another (third) currency. The IASB concluded that it had not intended to impose this restriction, therefore published this amendment to permit the loan to be denominated in a third currency.

(4) The consultation with technical experts in the field confirm that IFRIC 7 and the Amendment to IAS 21 meet the technical criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(5) Regulation (EC) No 1725/2003 should therefore be amended accordingly.

(6) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

Annex to Regulation (EC) No 1725/2003 is amended as follows:

1. International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*, is inserted as set out in the Annex to this Regulation;

2. International Accounting Standard (IAS) 21 is amended in accordance with the Amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation*, as set out in the Annex to this Regulation.

[1] OJ L 243, 11.9.2002, p. 1.
[2] OJ L 261, 13.10.2003, p. 1. Regulation as last amended by Regulation (EC) No 108/2006 (OJ L 24, 27.1.2006, p. 1).

Article 2

1. Each company shall apply IFRIC 7 as set out in the Annex to this Regulation as from the commencement date of its 2006 financial year at the latest, except for companies with a January or February commencement date shall apply IFRIC 7 as from the commencement date of its 2007 financial year at the latest.

2. Each company shall apply the Amendment to IAS 21 as set out in the Annex to this Regulation as from the commencement date of its 2006 financial year at the latest.

Article 3

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 8 May 2006.

For the Commission
Charlie McCREEVY
Member of the Commission

ANNEX

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRIC 7	IFRIC Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
IAS 21	Amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation*

IFRIC INTERPRETATION 7

Applying the Restatement Approach under IAS 29

Financial Reporting in Hyperinflationary Economies

References

— IAS 12 *Income Taxes*

— IAS 29 *Financial Reporting in Hyperinflationary Economies*

Background

1 This Interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies (*) the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29.

Issues

2 The questions addressed in this Interpretation are:

(a) how should the requirement '… stated in terms of the measuring unit current at the balance sheet date' in paragraph 8 of IAS 29 be interpreted when an entity applies the Standard?

(b) how should an entity account for opening deferred tax items in its restated financial statements?

Consensus

3 In the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity shall apply the requirements of IAS 29 as if the economy had always been hyperinflationary. Therefore, in relation to non-monetary items measured at historical cost, the entity's opening balance sheet at the beginning of the earliest period presented in the financial statements shall be restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed until the closing balance sheet date of the reporting period. For non-monetary items carried in the opening balance sheet at amounts current at dates other than those of acquisition or incurrence, that restatement shall reflect instead the effect of inflation from the dates those carrying amounts were determined until the closing balance sheet date of the reporting period.

4 At the closing balance sheet date, deferred tax items are recognised and measured in accordance with IAS 12. However, the deferred tax figures in the opening balance sheet for the reporting period shall be determined as follows:

(a) the entity remeasures the deferred tax items in accordance with IAS 12 after it has restated the nominal carrying amounts of its non monetary items at the date of the opening balance sheet of the reporting period by applying the measuring unit at that date.

(b) the deferred tax items remeasured in accordance with (a) are restated for the change in the measuring unit from the date of the opening balance sheet of the reporting period to the closing balance sheet date of that period.

The entity applies the approach in (a) and (b) in restating the deferred tax items in the opening balance sheet of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies IAS 29.

5 After an entity has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

Effective date

6 An entity shall apply this Interpretation for annual periods beginning on or after 1 March 2006. Earlier application is encouraged. If an entity applies this Interpretation to financial statements for a period beginning before 1 March 2006, it shall disclose that fact.

(*) The identification of hyperinflation is based on the entity's judgement of the criteria in paragraph 3 of IAS 29.

Amendment to IAS 21

The Effects of Changes in Foreign Exchange Rates

This document sets out amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The amendments finalise proposals that were contained in Draft Technical Correction 1 Proposed Amendments to IAS 21 *Net Investment in a Foreign Operation* published in September 2005.

An entity shall apply the amendments in this document for annual periods beginning on or after 1 January 2006. Earlier application is encouraged.

Net investment in a foreign operation

Paragraph 15A is added as follows.

‘15A The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 15 may be any subsidiary of the group. For example, an entity has two subsidiaries, A and B. Subsidiary B is a foreign operation. Subsidiary A grants a loan to Subsidiary B. Subsidiary A’s loan receivable from Subsidiary B would be part of the entity’s net investment in Subsidiary B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if Subsidiary A were itself a foreign operation.’

Recognition of exchange difference

Paragraph 33 is amended as follows.

‘33 When a monetary item forms part of a reporting entity’s net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation’s individual financial statements in accordance with paragraph 28. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity’s separate financial statements in accordance with paragraph 28. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity’s separate financial statements and in the foreign operation’s individual financial statements in accordance with paragraph 28. Such exchange differences are reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity (ie financial statements in which the foreign operation is consolidated, proportionately consolidated or accounted for using the equity method).’

Paragraph 58A is added as follows.

‘58A *Net Investment in a Foreign Operation* (Amendment to IAS 21), issued in December 2005, added paragraph 15A and amended paragraph 33. An entity shall apply those amendments for annual periods beginning on or after 1 January 2006. Earlier application is encouraged.’