

## **Amendment to SB-FRS 21**

### ***The Effects of Changes in Foreign Exchange Rates***

Net Investment in a Foreign Operation

This document is issued as a reference. The amendments in this document have been incorporated into SB-FRS 21.

## **Amendments to SB-FRS 21 *The Effects of Changes in Foreign Exchange Rates***

This document sets out amendments to SB-FRS 21 *The Effects of Changes in Foreign Exchange Rates*.

The amendments finalise proposals that were contained in Draft Technical Correction 1 Proposed Amendments to SB-FRS 21 *Net Investment in a Foreign Operation* published in October 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 (new text is underlined and deleted text is struck through).

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. Similarly, 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 (i.e. financial statements in which the foreign operation is consolidated, proportionately consolidated or accounted for using the equity method). However, a monetary item that forms part of the reporting entity's net investment in a foreign operation may be denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. The exchange differences that arise on translating the monetary item into the functional currencies of the reporting entity and the foreign operation are not reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity (i.e. they remain recognised in profit or loss).

Paragraph 58A is added as follows.

**58A *Net Investment in a Foreign Operation* (Amendment to SB-FRS 21), issued in 2006, 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.**