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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels,
COM(2005)

Draft

COMMISSION REGULATION (EC) No .../..

of [...]

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 standards¹, and in particular Article 3(1) thereof,

Whereas:

- (1) By Commission Regulation (EC) No 1725/2003² 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*

¹ OJ L 243, 11.9.2003, p. 1.

² OJ L 261, 13.10.2003, p.1. Regulation as last amended by Regulation (EC) No XXXX/2006 (OJ XXX, XX.XX.2006, p. XX.)

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.

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. However, 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, [...]

For the Commission
Charlie McCREEVY
Member of the Commission

ANNEX

INTERNATIONAL FINANCIAL REPORTING STANDARDS	
IFRIC 7	<i>IFRIC Interpretation 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>
IAS 21	<i>Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation</i>

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