

UKSIP

The Society of Investment Professionals

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Accounting Standards Board

Dear Sirs

Re FRED 24

I attach the Society's response to the above exposure draft.

Please note that we have separated our comments between ASB questions and IASB questions. While we are content for our responses to ASB questions to be made available publicly, we request that our responses to the IASB question remain confidential.

Yours faithfully

Paul H Richards

**The Effects of Changes in Foreign Exchange Rates
Financial Reporting in Hyperinflationary Economies (FRED 24)
Issued by the Accounting Standards Board**

ASB(i) Do you agree with the ASB's proposed timetable for the implementation in the UK of standards based on a revised IAS 21 and IAS 29?

We have no comment on timetable.

ASB(ii) Do you agree with the proposal not to include the IAS 21 provisions on the recycling of certain exchange gains and losses?

The Society believes that recycling must not be permitted. Inclusion within the STRGL should be the only permissible accounting treatment.

ASB(iii) Do you agree with the proposal not to include any transitional arrangements in these UK standards?

The Society agrees that transitional arrangements should not be necessary.

FRED 24: IASB questions

(UKSIP response to remain confidential)

IASB(i) Do you agree with the proposed definition of functional currency as “the currency of the primary economic environment in which the entity operates” and the guidance proposed in paragraphs 7-12 on how to determine what is an entity’s functional currency?

The Society supports this approach in economies which have been “dollarised”. Please see our response to question (ii) where we refer to the currency in which the management of the company seeks to maximise shareholder wealth.

IASB(ii) Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?

No, the Society does not agree. It is the task of management to maximise shareholder value. This objective needs to be expressed in terms of a currency. This is an important aspect of the evaluation of a company’s financial statements. Therefore, the currency in which the statements are presented should match the objective currency of the company in which it attempts to maximise shareholder wealth. No other currency should be used.

IASB(iii) Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity’s financial statements (see paragraphs 37 and 40)?

Financial statements should be presented in the currency that the management considers to be that in which their task is to maximise shareholder value.

IASB(iv) Do you agree that the allowed alternative to capitalise certain exchange differences in paragraph 21 of IAS 21 should be removed?

Yes

IASB(v) Do you agree that

- (a) goodwill and*
- (b) fair value adjustments to assets and liabilities*

that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

UK Society of Investment Professionals

The Society supports this approach. It is the shareholders in the foreign operation that own the goodwill.

REF: FRED 24/200/9/02