המוסד הישראלי לתקינה בחשבונאות
Israel Accounting Standards Board

October 6, 2008

International Accounting Standards Board

30 Cannon Street, London EC4M 6XH

United Kingdom

Dear Sir/Madam,

RE: Improvements to International Financial Reporting Standards

The Israel Accounting Standards Board is pleased to have this opportunity to comment on the IASB's Exposure Draft of Proposed Improvements to International Financial Reporting Standards published on August 2008.

We would like to comment on the proposed amendments to paragraph AG33(d) of International Accounting Standard no. 39.

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

The Israel Accounting Standards Board supports a revision to paragraph AG33(d)(iii) in order to clarify its meaning. Yet, in our opinion the wording proposed to this paragraph might not achieve the objective of the Board as stated in paragraph BC18 for the proposed amendment.

In Paragraph BC18 the Board states that "Paragraph AG33(d) is intended to prohibit the separation of embedded foreign currency derivatives if they are integral to the contractual arrangement, ie they have been entered into for reasons that are clearly not based on achieving a desired accounting result or for speculative purposes."

In paragraph BC19 the Board states that derivatives embedded in contracts denominated in some foreign currencies are likely to be integral to the contractual arrangement. These foreign currencies include:

"(d) a liquid international currency used by parties domiciled in small countries, as a convenient means of exchange

(e) a hard currency used by an entity operating in a hyperinflationary economy to protect against inflation

(f) a foreign currency commonly used in local business transactions - for example, when monetary amounts are viewed by the general population not in terms of the local currency but in terms of another related currency."

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The proposal included in the improvements to IFRSs is to replace paragraph AG33(d)(iii) with the following wording: "a currency that has one or more of the characteristics of a functional currency, as set out in paragraph 9 of IAS 21, of a substantial party to the contract."

We found an inconsistency between the basis for conclusion on that amendment (paragraphs BC19(d)-(f)) and the wording proposed for AG33(d)(iii).

Israeli entities might find it convenient to denominate contracts with entities in Eastern Europe, Asia, Africa and South America in US dollar, even if the US dollar is not the functional currency of either party to the contract. Although the characteristics of paragraph 9 of IAS 21 would not be met for such entities with respect to the US dollar, since most of their sales and purchases would be denominated in their local currencies, the international trade contracts were denominated in US dollar for reasons that are clearly not based on achieving a desired result or for speculative purposes.

We recommend that the proposed wording would be added as subsection (iv) to paragraph AG33(d) without any amendment to subsection (iii) to that paragraph. Doing so would achieve the Board's objective and would prohibit the separation of the embedded foreign currency derivatives in contracts that are denominated in the foreign currencies set out in paragraph BC19(d) - (f).

Sincerely,

Dov Sapir, CPA, Chairman

Israel Accounting Standard Board