

IAS 21 *The Effects of Changes in Foreign Exchange Rates* (March 2010)

Determination of functional currency of an investment holding company

The IFRIC received a request for guidance on whether the underlying economic environment of subsidiaries should be considered in determining, in its separate financial statements, the functional currency of an investment holding company

IAS 21 paragraphs 9 – 11 provide factors to be considered in determining the functional currency of an entity. Paragraph 12 states that when the ‘indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions’. In addition, paragraph 17 of IAS 21 requires that an entity determine its functional currency in accordance with paragraphs 9–14 of the standard. Therefore, paragraph 9 should not be considered in isolation when determining the functional currency of an entity.

Consequently, how an entity applies IAS 21 for the purpose of determining its functional currency - whether it is an investment holding company or any other type of entity - requires the exercise of judgement. IAS 1 *Presentation of Financial Statements* requires disclosure of significant accounting policies and judgements that are relevant to an understanding of the financial statements.

The IFRIC noted that any guidance it could provide would be in the nature of application guidance rather than an interpretation. Therefore, the IFRIC decided not to add the issue to its agenda.