Commission Regulation (EC) No 708/2006 of 8 May 2006 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)

COMMISSION REGULATION (EC) No 708/2006

of 8 May 2006

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 standards[(1)], and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1725/2003[(2)] 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 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

Changes to legislation: *There are currently no known outstanding effects for the Commission Regulation (EC) No 708/2006. (See end of Document for details)*

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, except for 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, 8 May 2006.

For the Commission

Charlie McCREEVY

Member of the Commission

***Changes to legislation:** There are currently no known outstanding effects for the Commission Regulation (EC) No 708/2006. (See end of Document for details)*

ANNEX

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRIC 7	IFRIC Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
IAS 21	Amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation*

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IFRIC INTERPRETATION 7

Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

References

— IAS 12 *Income Taxes*

— IAS 29 *Financial Reporting in Hyperinflationary Economies*

Background

1 This Interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies[3] the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29.

Issues

2 The questions addressed in this Interpretation are:

(a) how should the requirement '… stated in terms of the measuring unit current at the balance sheet date' in paragraph 8 of IAS 29 be interpreted when an entity applies the Standard?

(b) how should an entity account for opening deferred tax items in its restated financial statements?

Consensus

3 In the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity shall apply the requirements of IAS 29 as if the economy had always been hyperinflationary. Therefore, in relation to non-monetary items measured at historical cost, the entity's opening balance sheet at the beginning of the earliest period presented in the financial statements shall be restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed until the closing balance sheet date of the reporting period. For non-monetary items carried in the opening balance sheet at amounts current at dates other than those of acquisition or incurrence, that restatement shall reflect instead the effect of inflation from the dates those carrying amounts were determined until the closing balance sheet date of the reporting period.