ASC
ACCOUNTING STANDARDS COUNCIL

4 November 2008

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Sir

RESPONSE TO EXPOSURE DRAFT OF IMPROVEMENTS TO IFRSs (PROPOSED AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS)

The Accounting Standards Council (ASC) appreciates the opportunity to comment on the Exposure Draft (ED) of *Improvements to IFRSs (Proposed Amendments to International Financial Reporting Standards)* issued by the International Accounting Standards Board (IASB) in August 2008.

2. We generally agree with the proposed ED of Improvements except *IAS 39: Financial Instruments: Recognition and Measurement* on the bifurcation of an embedded foreign currency derivative.

3. The limited scope amendment, intended to address the issue of determining whether a foreign currency embedded derivative was integral to the arrangement and thus closely related to the terms of the contract, was not clear and fail to resolve existing practical issues.

4. Two examples are provided for illustrative purposes:

Example 1
Singapore Entity A (functional currency is SGD) enters into a purchase commitment to buy machinery from a German manufacturer (functional currency is EURO). The contract is denominated in EURO. Normally, fabrication and delivery of the machinery can take up to more than one year. This foreign currency embedded derivative would not be separated from its host contract as it falls under IAS 39 AG 33(d)(i) in that the purchase commitment is in the functional currency of the manufacturer.

Example 2
Singapore Entity B (functional currency is SGD) also enters into a purchase commitment to buy similar machinery through a distributor in Singapore (functional currency is SGD) and the contract is denominated in EURO. It is believed that the distributor buys the machinery from the manufacturer in EURO and resells to the Singapore entity in EURO although its functional currency is SGD. In this case, B will not be able to avail itself to the exemption

under IAS 39 AG 33(d)(i) since the foreign currency is not the functional currency of B and the distributor. In fact, as the current IAS 39 AG 33(d)(iii) is interpreted narrowly, Example 2 does not seem to fall into any of the three criteria in IAS 39 AG 33(d) and would need to account for the foreign currency embedded derivative separately. In Example 2, EURO also does not seem to fall under any of the examples set out in BC 19 of the proposed improvements.

5. If the embedded foreign exchange derivative in Example 2 is required to be separated and accounted for as a derivative, it would not reflect the economic substance given that both A and B enter into similar purchase commitment to buy machineries in EURO.

6. We note and understand that both Entities A and B are subjected to foreign currency risk and there are currently, no requirement to disclose such exposures relating to the commitments to purchase non-financial items. For these reasons, we recommend that the IASB consider excluding this proposed amendment from the annual improvements project and consider embarking on a separate project to deal with the scope of the embedded derivative and the disclosure of foreign currency risk arising from such items.

7. Nonetheless, if IASB decides to proceed with the amendment, we would like to propose the following:

- Moving BC 18 (in the proposed amendments) to IAS 39 to make it the overarching principle, ie foreign currency derivatives are integral to the contractual arrangement if they have been entered into for reasons that are clearly not based on achieving a desired accounting result or for speculative purposes; and

- Moving BC 19 (in the proposed amendments) to the application guidance as a list of examples where the principle will be met.

8. Should you require any further clarification, please kindly contact me. Thank you.

Yours faithfully,

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