

ISSUE

- ▶ The Euro became a currency in its own right from 1 January 1999 (the effective start date of Economic and Monetary Union (EMU)).
- ▶ The Euro and participating national currencies are irrevocably fixed from this date.
- ▶ The issue is the application of NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* to the changeover from the national currencies of participating Member States of the European Union to the Euro ("the changeover").

An EMU is a single market with a common currency.

CONSENSUS

- ▶ The requirements of NZ IAS 21 regarding the translation of foreign currency transactions and financial statements of foreign operations should be strictly applied to the changeover.
- ▶ The same rationale applies to the fixing of exchange rates when countries join EMU at later stages.

This means that, in particular:

- ▶ Foreign Currency transactions
 - Continue to be translated into the functional currency at the closing rate.
 - Any exchange differences are recognised in profit or loss immediately, except that an entity continues to apply its existing accounting policy for exchange gains and losses related to hedges of the currency risk of a forecast transaction.
- ▶ Translation of financial statements of foreign operations
 - Cumulative exchange differences relating to the translation of financial statements of foreign operations are recognised in other comprehensive income, and are accumulated in equity.
 - They are only reclassified from equity to profit or loss on the disposal of the net investment in the foreign operation.
- ▶ Translation of liabilities denominated in participating currencies
 - Exchange differences resulting from the translation of liabilities denominated in participating currencies shall not be included in the carrying amount of related assets.