



Solution 121.7

Component	Investment entities
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Short Title	Functional currency of an SPE

Attention: This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the "Applying IFRS 2004" guidance.

Issue

The functional currency is the currency of the primary economic environment in which the entity operates and therefore normally the one in which it primarily generates and expends cash.

When determining the functional currency of an investment fund additional factors should be considered. Such additional factors are whether the activities of the fund are an extension of the reporting entity, rather than being carried out with a significant degree of autonomy [IAS21.11(a)].

Background

Fund B is an SPE that has been set up on behalf of a European based investor to serve the specific business needs of this investor. The functional currency of the investor is the euro.

In accordance with the agreed investment strategy the fund invests 85% of its net assets in US equity securities. The remaining investments are wide spread. The redemption of shares will be executed in US dollars.

Should the fund use the euro as its functional currency for its stand-alone financial statements?

Solution

Yes. The euro is the appropriate functional currency of the fund. Although the fund is mainly invested in the US market, its activities are simply an extension of the activities of the investor. The fund does not operate with a significant degree of autonomy. Consequently, the fund is an SPE whose functional currency is the same as its investor.