

**Foreign Currency Transactions and Advance Consideration**

# **Feedback to constituents – EFRAG Final Comment Letter**

**January 2016**

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## Introduction

### Objective of this feedback statement

EFRAG published its final comment letter on the Draft IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration* (‘the Draft Interpretation’) on 5 February 2016. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter.

### Background to the ED

The IFRS Interpretations Committee (the ‘Interpretations Committee’) received a question about which exchange rate to use when reporting transactions that are denominated in a foreign currency in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The request described a circumstance in which a customer paid for goods or services by making a non-refundable payment in advance.

IAS 21 sets out requirements about which exchange rate to use when recording a foreign currency transaction on initial recognition in an entity’s functional currency. However, the Interpretations Committee observed some diversity in practice in circumstances in which consideration was received or paid in advance of the recognition of the related asset, expense or income.

Consequently, the Interpretations Committee developed a Draft Interpretation in which is stated that the date of the transaction, for the purpose of determining the spot exchange rate used to translate the related asset, expense or income (or part of it) on initial recognition in accordance with paragraphs 21–22 of IAS 21, is the earlier of:

- (a) the date of initial recognition of the non-monetary prepayment asset or the non-monetary deferred income liability; and
- (b) the date that the asset, expense or income (or part of it) is recognised in the financial statements.

Further details are available on the EFRAG [website](#).

### **EFRAG’s draft comment letter**

EFRAG published a [draft comment letter](#) on the proposals on 13 November 2015. In the draft comment letter, EFRAG welcomed the guidance proposed in the Draft Interpretation, as EFRAG believed it would clarify the accounting for foreign currency transactions in which consideration was received or paid in advance of the recognition of the related asset, expense or income. EFRAG also agreed with the proposed consensus and believed it was consistent with the underlying principles in IAS 21.

### **Comments received from constituents**

Seven comment letters were received from constituents and considered by EFRAG in its discussions. These comment letters are available on the EFRAG [website](#).

The comment letters received came from national standard setters, preparers and EU authorities.

Two respondents did not provide detailed comments, but stated that they fully agreed with EFRAG’s Draft Comment Letter.

Two respondents did not provide detailed comments, but stated that the IFRIC Interpretation should not be issued as the respondent believed IAS 21 provided sufficient guidance and they were not aware of diversity in practice.

### **EFRAG’s final comment letter**

In its final comment letter EFRAG retained its tentative position, supporting the guidance proposed in the Draft Interpretation.

## Detailed analysis of issues, comments received and changes made to EFRAG’s final comment letter

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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### General comments and Cover Letter

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#### *EFRAG’s tentative position*

EFRAG welcomes the guidance proposed in the Draft Interpretation, as we believe it will help reduce the identified diversity in accounting for foreign currency transactions in which consideration was received or paid in advance of the recognition of the related asset, expense or income. We also agree with the proposed consensus and believe it is consistent with the underlying principles in IAS 21.

#### *Constituents’ comments*

Most of the respondents agreed with the guidance proposed in the Draft Interpretation.

Three respondents noted that they were not aware of any diversity in practice. Two respondents therefore concluded that the Draft Interpretation should not be published.

EFRAG’s response to constituents’ comments

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#### *EFRAG’s final position*

In light of the positive feedback in response to EFRAG’s tentative position, EFRAG has retained its tentative position, supporting the guidance proposed in the Draft Interpretation.

However, taking into account several respondents’ comments on the absence of any diversity in practice in Europe, EFRAG has removed statements on the existence of diversity in practice.

**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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**Scope**

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*Proposals in the ED*

The Draft Interpretation applies to a foreign currency transaction in circumstances in which:

- (a) there is consideration that is denominated or priced in a foreign currency;
- (b) the entity recognises a prepayment asset or a deferred income liability, in advance of the recognition of the related asset, expense or income (or part of it); and
- (c) the prepayment asset or deferred income liability is non-monetary.

*EFRAG’s tentative position*

EFRAG agrees with the scope proposed in the Draft Interpretation.

*Constituents’ comments*

Most respondents agreed with the scope proposed in the Draft Interpretation.

**EFRAG’s response to constituents’ comments**

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*EFRAG’s final position*

In light of the positive feedback in response to EFRAG’s tentative position, EFRAG has retained its tentative position, supporting the guidance proposed in the Draft Interpretation.

However, taking into account several respondents’ comments on the absence of any diversity in practice in Europe, EFRAG has removed statements on the existence of diversity in practice.

**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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**Consensus**

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*Proposals in the ED*

The Draft Interpretation states that the date of the transaction, for the purpose of determining the spot exchange rate used to translate the related asset, expense or income (or part of it) on initial recognition in accordance with paragraphs 21–22 of IAS 21, is the earlier of:

- (a) the date of initial recognition of the non-monetary prepayment asset or the non-monetary deferred income liability; and
- (b) the date that the asset, expense or income (or part of it) is recognised in the financial statements.

If the transaction is recognised initially in stages, the Draft Interpretation states that a date is established for each stage.

When there is more than one date of the transaction, the exchange rate for each date is to be applied to translate that part of the transaction.

*EFRAG’s tentative position*

EFRAG agrees with the consensus and believes that the guidance is appropriate and aligned with the requirements in IAS 21.

EFRAG recommends to illustrate the situation reflected in paragraph BC20 of the Basis for Conclusions of the Draft Interpretation in the illustrative examples in order to reflect the terms of a transaction give rise to a prepayment asset or a deferred income liability that is a foreign currency-denominated monetary item instead of a non-monetary item.

**EFRAG’s response to constituents’ comments**

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*EFRAG’s final position*

In light of the positive feedback in response to EFRAG’s tentative position, EFRAG has retained its tentative position, supporting the guidance proposed in the Draft Interpretation.

However, considering that several respondents referred to the accounting for a revenue transaction with significant financing, EFRAG has requested the IASB to clarify which exchange rate has to be used for the translation of the accreted amount.

**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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*Constituents’ comments*

Most respondents agreed with the consensus.

Two respondents agreed with EFRAG’s proposal to provide additional guidance on the case where the prepayment asset or a deferred income liability is a monetary item.

One respondent noted that the consensus would result in an asymmetry when comparing consideration paid or received in advance with consideration paid or received in arrears.

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**EFRAG’s response to constituents’ comments**

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**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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**Transition**

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*Proposals in the ED*

On initial application, an entity is required to apply the Draft Interpretation either:

- (a) retrospectively to each prior reporting period presented in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; or
- (b) prospectively to all assets, expenses and income in the scope of the Draft Interpretation initially recognised on or after the beginning of the reporting period in which an entity first applies the Draft Interpretation, or the beginning of a prior reporting period presented as comparative information

*EFRAG’s tentative position*

EFRAG agrees with the proposed transition guidance.

*Constituents’ comments*

Most respondents agreed with the proposed transition guidance.

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**EFRAG’s response to constituents’ comments**

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*EFRAG’s final position*

In light of the positive feedback in response to EFRAG’s tentative position, EFRAG has retained its tentative position, supporting the guidance proposed in the Draft Interpretation.

**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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**Other issues**

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One respondent noted that in many instances, it was not readily apparent whether an item recognised should be regarded as a monetary or non-monetary item.

Several respondents noted possible inconsistencies with IFRS 15 *Revenues from Contracts with Customers*.

One respondent questioned whether the Interpretations Committee considered the interaction of the proposed guidance with the hedge accounting requirements in IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*, respectively), especially with respect to the potential impact of the Draft Interpretation on hedge documentations that are in place.

In its response to another consultation, a respondent observed that the Interpretations Committee had included a foot note in the Basis for Conclusions of the Draft Interpretation referring to the Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*.

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**EFRAG’s response to constituents’ comments**

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*EFRAG’s final position*

EFRAG notes that the objective of the Draft Interpretation is to clarify the guidance provided in paragraphs 21-22 of IAS 21. EFRAG therefore agreed with the IFRS IC’s position that this clarification does not involve the interpretation of guidance in other standards, nor the guidance on the distinction between monetary and non-monetary.

EFRAG recommended that the Interpretations Committee remove the foot note in the Basis for Conclusions of the Draft Interpretation which refers to the Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*, as the guidance has not yet been finalized.

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## APPENDIX 1: List of respondents

**Table 1: List of respondents**

<b>Name of constituent<sup>1</sup></b>	<b>Country</b>	<b>Type / Category</b>
Swedish Enterprises Accounting Group	Sweden	Preparer
Danish Accounting Standards Committee	Denmark	Standard Setter
Autorité des Normes Comptables	France	Standard Setter
Instituto de Contabilidad y Auditoría de Cuentas	Spain	Standard Setter
European Securities and Markets Authority	Europe	European Regulator
Dutch Accounting Standards Board	Netherlands	Standard Setter
Accounting Standards Committee of Germany	Germany	Standard Setter

<sup>1</sup> Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter.

## APPENDIX 2: Summary - respondents by country and by type

**Table 2: Total respondents by country and by type**

<b>Respondent by country:</b>		<b>Respondent by type:</b>	
Denmark	1	National Standard Setters	5
France	1	Auditors	
Spain	1	Business Associations	
Netherlands	1	Preparers	1
Germany	1	Users	
Sweden	1	Regulators	1
		Others	
European organisations	1		
Global organisations			
	<b>7</b>		<b>7</b>

## APPENDIX 3: Summary of views expressed by respondents

**Table 3: Summary of views expressed by respondents**

	<i>Topic 1</i>		<i>Topic 2</i>		<i>Topic 3</i>		<i>Total</i>
	<i>Agree</i>	<i>Disagree</i>	<i>Agree</i>	<i>Disagree</i>	<i>Agree</i>	<i>Disagree</i>	
National Standard Setters	4	1	4	1	4	1	5
Preparers		1		1		1	1
Users							
Professional firms							
European Regulators	1		1		1		1
	<b>5</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>7</b>