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## **Foreign Currency Transactions and Advance Consideration Cover Note**

### **Objective**

- 1 The objectives of the session are to:
  - (a) consider the comments received in response to EFRAG's Invitation to Comment on its draft endorsement advice on the IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* ('IFRIC 22'); and
  - (b) discuss and agree to recommend to the EFRAG Board a final endorsement advice.

### **Background**

- 2 On 8 December 2016, the IASB issued IFRIC 22 to clarify how the date of the transaction should be assessed for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.
- 3 EFRAG issued its Draft Endorsement Advice and a separate invitation to comment on 17 February 2017, requesting comments by 17 March 2017.

### **EFRAG's initial assessment on IFRIC 22**

- 4 EFRAG's initial assessment was that IFRIC 22 satisfies the criteria for endorsement for use in the EU and, therefore, recommended its endorsement.

### **Comment letters received**

- 5 EFRAG received comment letters from 9 respondents representing 3 national standard-setters, 1 regulator and 5 preparers.
- 6 The EFRAG Secretariat has considered all the comments received in response, which are summarised below.
- 7 Finally, the EFRAG Secretariat reviewed the 12 European comment letters in response to the IASB's Draft Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration* (the 'DI'):
  - (a) most respondents supported the technical proposals in the DI; and
  - (b) some respondents asked for additional guidance on elements that were not part of the scope of the DI (such as significant financial components and the distinction between monetary and non-monetary items).

### **Summary of comments received on the draft endorsement advice**

- 8 All the respondents agreed with EFRAG's overall initial assessment for endorsement. Most respondents did not provide comments to explain their views.

#### *Comments on technical criteria*

- 9 All respondents agreed with EFRAG's initial assessments in respect to the technical criteria for endorsement and they raised no additional matters for EFRAG to consider.

#### *Comments on European public good*

- 10 All respondents agreed with EFRAG's initial assessment of whether IFRIC 22 is an improvement over current requirements. One respondent specifically stated that, IFRIC 22 is a correct interpretation of the underlying standards and eliminating diversity in practice will enhance the quality of IFRS.
- 11 All respondents also agreed with EFRAG's assessment, contained in Appendix 3 of its endorsement advice, that IFRIC 22 is conducive to European Public Good.
- 12 One respondent disagreed with EFRAG's initial assessment of the costs. This respondent observed that for some industries the ERP system adjustments to become compliant are probably not insignificant. However this respondent agreed that the benefits are likely to outweigh the costs involved.

### **EFRAG Secretariat proposed recommendation**

- 13 Considering the input received from constituents, the EFRAG Secretariat recommends to maintain the initial assessment that IFRIC 22 satisfies the criteria for endorsement for use in the EU and therefore that EFRAG recommends its endorsement. EFRAG Secretariat has made minor changes to the letter to the European Commission reflecting the comments from respondents. These are marked-up in agenda paper 09-02.
- 14 Regarding the comment made by one respondent, the EFRAG Secretariat refers to paragraphs 8 and 10 of EFRAG's draft endorsement advice that address the issue of one-time costs to modify some preparers' systems. Considering that the issue was already addressed, the EFRAG Secretariat recommends to retain the current wording.

#### **Questions for EFRAG TEG**

- 15 Does EFRAG TEG agree to recommend the Final Endorsement Advice, as contained in Agenda paper 09-02, to the EFRAG Board?

### **Agenda Papers**

- 16 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 09-02 – Letter to the European Commission regarding the endorsement of the Amendments; and
  - (b) Agenda paper 09-03 – Comment letters received from constituents.