

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

Comments should be submitted by 17 March 2017 by using the 'Express your views' page on EFRAG website or by clicking [here](#)

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* ('IFRIC 22'). In order to do so, EFRAG has been carrying out an assessment of IFRIC 22 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the European Union (the EU) and European Economic Area.

A summary of IFRIC 22 is set out in Appendix 1 of the accompanying *Draft Letter to the European Commission* regarding endorsement of IFRIC 22.

Before finalising its assessment, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interests of transparency, EFRAG will wish to discuss the responses it receives in a public meeting, so it is preferable that all responses can be published.

EFRAG's initial assessments, summarised in this questionnaire, will be updated for comments received from constituents when EFRAG is in the process of finalising its *Letter to the European Commission* regarding endorsement of IFRIC 22.

Your details

1 Please provide the following details:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Merck KGaA,

- (b) Are you a:

Preparer User Other (please specify)

- (c) Please provide a short description of your activity:

Science and technology company in Healthcare, Life Science and Performance Materials

- (d) Country where you are located:

Germany

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- (e) Contact details, including e-mail address:

Stefan Wich; Head of Group Accounting Standards (Stefan.Wich@merckgroup.com)

EFRAG's initial assessment with respect to the technical criteria for endorsement

- 2 EFRAG's initial assessment of IFRIC 22 is that it meets the technical criteria for endorsement. In other words, IFRIC 22 is not contrary to the principle of true and fair view and meets the criteria of understandability, relevance, reliability, comparability and lead to prudent accounting. EFRAG's reasoning is set out in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of IFRIC 22.

- (a) Do you agree with this assessment?

Yes No

If you do not agree, please provide your arguments and what you believe the implications of this could be for EFRAG's endorsement advice.

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- (b) Are there any issues that are not mentioned in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of IFRIC 22 that you believe EFRAG should take into account in its technical evaluation of IFRIC 22? If there are, what are those issues and why do you believe they are relevant to the evaluation?

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The European public good

- 3 In its assessment of the impact of IFRIC 22 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of IFRIC 22.

Improvement in financial reporting

- 4 EFRAG has identified that in assessing whether the endorsement of IFRIC 22 is conducive to the European public good it should consider whether IFRIC 22 is an improvement over current requirements across the areas which have been subject to changes (see paragraphs 3 to 5 of Appendix 3 of the accompanying *Draft Letter to the European Commission*). To summarise, EFRAG's initial assessment is that IFRIC 22 is likely to improve the quality of financial reporting.

Do you agree with the assessment?

Yes No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

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Costs and benefits

- 5 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of IFRIC 22 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this invitation to comment will be used to complete the assessment.

The results of the initial assessment of costs are set out in paragraphs 7 to 14 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of IFRIC 22. To summarise, EFRAG's initial assessment is that IFRIC 22 is likely to result in insignificant costs for users and for most preparers.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

According to our understanding many standard ERP-Systems have a different logic than the proposed accounting treatment under IFRIC 22. Therefore, for some industries the costs to become compliant are probably not insignificant.

- 6 In addition, EFRAG is assessing the benefits that are likely to be derived from IFRIC 22. The results of the initial assessment of benefits are set out in paragraphs 18 to 19 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of IFRIC 22. To summarise, EFRAG's initial assessment is that users and preparers are likely to benefit from IFRIC 22.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

- 7 EFRAG's initial assessment is that the benefits to be derived from implementing IFRIC 22 in the EU, as described in paragraph 6 above, are likely to outweigh the costs involved, as described in paragraph 5 above.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Other factors

- 8 Do you agree that there are no other factors to consider in assessing whether the endorsement of IFRIC 22 is conducive to the European public good?

Yes No

If you do not agree, please identify the factors, provide your views on these factors and indicate how this could affect EFRAG's endorsement advice.

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Overall assessment with respect to the European public good

- 9 EFRAG has initially concluded that the endorsement of IFRIC 22 would be conducive to the European public good (see paragraphs 21 to 24 of Appendix 3 of the accompanying *Draft Letter to the European Commission*).

Do you agree with this conclusion?

Yes No

If you do not agree, please explain your reasons.