MINISTERIO
DE ECONOMÍA Y
COMPETITIVIDAD

INSTITUTO DE CONTABILIDAD
Y AUDITORÍA DE CUENTAS

DI/2015/2 Foreign Currency Transactions and Advanced Consideration.

Dear Madam/Sir,

In the present letter ICAC gives its view on some specific issues raised on DI/2015/2 Foreign Currency Transactions and Advanced Consideration.

Question 1 – Scope

The Draft Interpretation addresses how to determine the date of the transaction for the purpose of determining the spot exchange rate used to translate foreign currency transactions on initial recognition in accordance with paragraphs 21–22 of IAS 21. Foreign currency transactions that are within the scope of the draft Interpretation are described in paragraphs 4–6 of the Draft Interpretation.

Do you agree with the scope proposed in the Draft Interpretation? If not, what do you propose and why?

ICAC agrees with the scope proposed in the Draft Interpretation.

Question 2 – Consensus

The consensus in the draft Interpretation provides guidance on how to determine the date of the transaction for the purpose of determining the spot exchange rate used to translate the asset, expense or income (or part of it) on initial recognition that relates to, and is recognised on the derecognition of, a non-monetary prepayment asset or a non-monetary deferred income liability (see paragraphs 8–11). The basis for the consensus is explained in paragraphs BC22–BC33. This includes the Interpretations Committee's consideration of the interaction of the draft Interpretation and the presentation in profit or loss of exchange differences arising on monetary items in accordance with paragraphs 28–29 of IAS 21 (see paragraphs BC32–BC33).

Do you agree with the consensus proposed in the draft Interpretation? If not, why and what alternative do you propose?

ICAC believes that there are arguments for and against the consensus proposed in the draft interpretation, but appreciates the work of the IFRS Interpretations Committee to set criteria and thus solve the doubts that were arising in practice.

However, ICAC recommends the following issue should be analyzed.

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As it is said in BC20, an advance receipt or payment of consideration typically gives rise to a non-monetary prepayment asset or a non-monetary deferred income liability. But there could be cases in which the prepayment asset or a deferred income liability is monetary item instead of non-monetary item.

There is no more guidance about this issue in the draft and the monetary and non-monetary feature of the item is not a clear question. For example, IFRS 15 indicates in paragraph 60 and 61:

"In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component."

"The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (ie the cash selling price)."

The question is if an entity receives a prepayment asset from a customer and the transfer of control occurs in more than one year term, IFRS 15 establishes a presumption that the transaction involves a significant financial component and therefore the standard requires updating the prepayment asset. Well, assuming that the payment has been received in foreign currency, in line with the interpretation of IFRIC, ICAC does not see clearly what exchange rate should be used to perform the update.

Question 3 – Transition

On initial application, entities would apply the proposed Interpretation either:

(a) retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; or
(b) prospectively to all foreign currency assets, expenses and income in the scope of the proposed Interpretation initially recognised on or after:
(i) the beginning of the reporting period in which an entity first applies the proposed Interpretation; or
(ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which an entity first applies the proposed Interpretation.

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Do you agree with the proposed transition requirements? If not, what do you propose and why?

ICAC agrees with the proposed transition guidance.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Ana Martínez-Pina
Chairman of ICAC

Madrid, 12 January of 2016

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