BUSINESSEUROPE

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

20 January 2016

Dear Members of the IFRS Interpretations Committee,

Re: Draft IFRIC Interpretation DI/2015/2 Foreign Currency Transactions and Advance Consideration

BUSINESSEUROPE is pleased to respond to the Draft Interpretation DI/2015/2 – Foreign Currency Transactions and Advance Consideration

We appreciate the IFRS Interpretation Committee's (IC) effort to try to reduce diversity in practice and enhance comparability. However, we think that the proposed Interpretation and examples should be analysed in the light of Revenue recognition and Hedging and not only as an interpretation of IAS 21.

Please find our detailed comments to the questions asked by the IFRS IC on the following pages. Should you require any supplementary comment or explanation, please do not hesitate to contact us.

Yours sincerely,

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APPENDIX

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?

While we agree with the need for an interpretation, we believe it deserves some further clarification.

We agree with the scope, including the specification of paragraph 4(c) that the prepayment asset or deferred income liability is non-monetary). It could be useful to introduce in the body of the Interpretation (in paragraph 4) the examples of the transactions concerned that are currently presented only in the Basis for Conclusions (BC10). Regarding the examples provided in the draft Interpretation we understand that the advance payments are non-refundable and the contracts are non–cancellable, therefore the advance payments and deferred income liability are non-monetary assets or liabilities.

However, we find footnote 4 (IE2) confusing, since it is stated there that the Interpretation will also be applicable to “all transactions that are within the scope as set out”, implying that this includes refundable payments. The scope could be thus read as meaning that every prepayment made or received is to be regarded as a non-monetary item. An explicit wording would be helpful and bring clarity.

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 nonmonetary 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?

We agree with the proposed consensus, as we understand it provides a “practical expedient“ for the interpretation of IAS 21.

However the application in stages for revenue accounting should be developed further and we think that it should also be analysed in the light of Revenue recognition principles (IAS 11/IAS 18 and IFRS 15).

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In other words, according to IAS 21.21 and 21.22 "A foreign currency transaction shall be recorded [...] by applying to the foreign currency amount the spot exchange rate [...] at the date of the transaction" and "The date of the transaction is the date on which the transaction first qualifies for recognition in accordance with IFRS". Therefore we suggest that the Interpretation should clarify the relevant principles on which revenue should be recognized at two different spot exchange rates (IE 8 example 2).

We concur with the analysis (BC 25) that the entity is no longer exposed to the forex risk to the extent that it has received or paid any advance consideration. From a "risk" point of view, an advance payment in a sale contract denominated in a foreign currency is a "compound" instrument (comprising cash + derivative), the derivative being a hedging instrument. In other words, we understand that the consensus, is to recognise the "hedged" part of revenue at the "hedging rate" but we think that it should also be presented as such. It will bring clarity both in the consensus and in the examples.

In Example 4, IE17 (c) revenue is booked for CU 725 [200x1,5("hedging rate") + 250x1,7 (transaction date rate)]. As said, we agree with the consensus because it does reflect the economics of the transaction. However, we think that it should be clarified (in IFRS 15?) that the accounting for a transaction with the same economic substance (part of the contract being hedged with a derivative) should be identical. In other words, revenue of FC 450 equivalent to CU 765 (application of IAS 21 at the transaction date 1,7) which is partially hedged (FC 200 at 1,5) should be reported at CU 725.

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

We support the option provided for prospective application of the draft interpretation, as this could avoid a considerable burden for some preparers.

Concerning the effective date, we recommend aligning it with that of IFRS 15, as the issue is quite closely associated with items covered by the revenue recognition standard. However, the proposal to permit early application should be maintained.

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