



<b>Project:</b>	Draft IFRIC Interpretation DI/2015/2 <i>Foreign Currency Transactions and Advance Consideration</i>	<b>Meeting</b>	AASB December 2015 (M149)
<b>Topic:</b>	Consider draft comment letter	<b>Agenda Item:</b>	13.7
<b>Contact(s):</b>	Eric Lee <a href="mailto:elee@aasb.gov.au">elee@aasb.gov.au</a> (03) 9617 7646	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Form tentative views on IFRS IC proposals

## Introduction and objective of this paper

- 1 The objective of this paper is to:
  - (a) seek Board member views on the draft AASB submission to Draft IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration*. The draft submission is included as Appendix A to this staff paper.
  - (b) agree on the process for finalising the AASB submission.

## Link to Draft Interpretation

[http://www.aasb.gov.au/admin/file/content105/c9/ED\\_IFRIC\\_ForeignCurrencyTransactionsandAdvanceConsideration.pdf](http://www.aasb.gov.au/admin/file/content105/c9/ED_IFRIC_ForeignCurrencyTransactionsandAdvanceConsideration.pdf)

## Draft AASB submission

*Comment letters to be received by the AASB*

- 2 The IFRS Interpretations Committee ('the Committee') issued Draft IFRIC Interpretation DI/2015/2 in October 2015. Comments to the AASB are requested by **21 December 2015** and to the Committee by **19 January 2016**.
- 3 At the time of writing this staff paper, no submissions have been received on DI/2015/2.

*About the draft submission (Appendix A)*

- 4 The staff recommendations are reflected in the draft AASB submission attached as Appendix A. The draft submission has been prepared to facilitate the Board's discussion on the positions it expects to take in response to the specific matters for comment in DI/2015/2.

**Question 1 to the Board**

Do Board members agree with the draft submission? If not, what aspects of the submission would Board members like to be amended or further developed?

**Finalising the AASB submission to the IFRIC**

- 5 Staff will update the draft submission to reflect Board member comments following the Board meeting. Given that there is no further Board meeting before close of the comment period, staff recommend that the AASB comment letter be finalised out-of-session with the Chair, having regard to any feedback received from constituents.

**Question 2 to the Board**

Do Board members agree with the staff recommendation for the AASB submission to be finalised out- of-session by the Chair?



**Australian Government**  
**Australian Accounting**  
**Standards Board**

**AASB 2-3 December 2015 (M149)**  
**Agenda Paper 13.7 (Appendix A)**

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**APPENDIX A: DRAFT COMMENT LETTER**

This document is a work in progress and has been prepared by AASB staff to facilitate the deliberations of the AASB on Draft IFRIC DI/2015/2 for the purpose of forming tentative Board views.

[X] January 2015

Wayne Upton  
The Chair  
IFRS Interpretations Committee  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Wayne

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

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IFRS Interpretations Committee's ('the Committee') Draft IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration*. In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters. The comment letters received are published on the AASB's website.

The AASB supports the Committee's efforts to address diversity in practice arising from the application of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and generally agrees with the Committee's proposals in DI/2015/2. The AASB's key concern relates to the proposed optional application of the proposals to insurance contracts and income taxes.

The AASB's responses to the specific matters for comment in DI/2015/2 are included in the Appendix to this letter.

If you have queries regarding any matters in this submission, please contact Eric Lee ([elee@asb.gov.au](mailto:elee@asb.gov.au)).

Yours sincerely,

Kris Peach  
Chair and CEO

## APPENDIX

### **AASB comments on Draft IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration***

The AASB comments as follows on the Committee's specific questions set out in DI/2015/2.

#### **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?

The AASB agrees with the proposed scope in paragraph 4-5. However, the AASB disagrees with the proposed optional application of the proposals to insurance contracts and income taxes. The AASB considers that the scope of a final pronouncement should be consistent with that of IAS 21 as the proposals are an interpretation of the requirements of that Standard. The AASB also considers it unclear how the proposed optional application of the requirements interacts with the hierarchy specified by paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and recommends that this be clarified in the final pronouncement if the proposed optional application is retained.

In addition, the AASB thinks it is unclear why the Committee is proposing that the amendments need not be applied to income taxes, and recommends that paragraph BC11(b) be extended to better explain the Committee's concern, including addressing when prepayments of deferred taxes are likely to be non-monetary items. The AASB notes that prepayments of deferred income liabilities arising from insurance contracts and income taxes that are monetary items are already otherwise excluded by the proposed scope.

#### **Question 2 – Consensus**

The consensus in the draft Interpretation provides guidance on how to determine the date of the transactions 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?

The AASB agrees with the consensus proposed in the draft Interpretation.

However, the AASB thinks it would be useful if further guidance is included to clarify when a prepayment asset and deferred income liability is monetary or non-monetary in nature. The AASB does not think that refundability alone affects whether a prepayment is a monetary item.

### 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?

The AASB supports the proposal to give entities the option of relief from retrospective application of the amendments. However, the AASB does not support giving entities an option of prospective application dates. The AASB thinks, to enhance comparability, entities should:

- (a) if the effective date of these amendments is determined to be no earlier than the effective date of IFRS 15 *Revenue from Contracts with Customers* (however, see also Other Comment (b) following Question 3), only be permitted to apply the amendments prospectively to all foreign currency assets, expenses and income in the scope of the proposed Interpretation initially recognised on or after 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 Interpretation; and
- (b) if the effective date of these amendments is determined to be earlier than the effective date of IFRS 15, only be permitted to apply the amendments prospectively to all foreign currency assets, expenses and income in the scope of the proposed Interpretation initially recognised on or after the beginning of the reporting period in which an entity first applies the proposed Interpretation.

### Note to Board members:

Staff considered whether there was a need for transitional provisions on adoption of the proposed amendments, other whether the general requirements of IAS 8 should apply. Staff think that it may be overly burdensome for some entities to demonstrate that retrospective application of the amendments is impracticable (so as to access prospective application), having regard to the IAS 8 definition of ‘impracticable’. Accordingly, staff support the need for transitional provisions on adoption of the amendments.

Staff do not support having too many transitional alternatives as staff consider this to reduce comparability. Accordingly, the staff recommendation is for prospective application to be limited to only one of the two alternatives proposed. Staff note that at the Committee's January 2015 meeting, the Committee had tentatively agreed that the effective date should not be earlier than that of IFRS 15. Staff think it would not be burdensome to entities to apply the amendments to transactions following the start of the comparative period for an effective date beginning on or after 1 January 2018.

### Other comments

The AASB makes the following other comments about the draft Interpretation:

- (a) The AASB notes that the draft Interpretation introduces the terminology 'deferred income liability', but also uses the IFRS 15 defined term 'contract liability' (for example, in Illustrative Examples 2 and 4 and in paragraph BC27). The AASB thinks that it would be preferable for the same term to be used throughout the final Interpretation. In addition, the AASB supports the use of consistent terminology between IFRS, where possible. If the Committee thinks it is necessary for the Interpretation to continue to use the terminology 'deferred income liability', the AASB encourages the Committee to include its rationale for doing so in its Basis for Conclusions to the Interpretation, including how it differs from 'contract liability';

#### Note for Board members:

Appendix A of IFRS 15 defines a 'contract liability' as an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

Paragraph 2 of DI/2015/2 describes a 'deferred income liability' as an entity's obligation to transfer goods or services.

- (b) The AASB thinks that it is unnecessary to align the effective date of the Interpretation to that of IFRS 15, given that the proposed Interpretation is an interpretation of IAS 21. The AASB notes that it may be necessary therefore for IAS 18 *Revenue* to be considered as part of developing a final pronouncement;
- (c) Paragraph 2 states that "In circumstances in which an entity pays or receives some or all of the foreign currency consideration in advance of the recognition of the related asset, expense or income, the entity *generally* recognises a non-monetary asset or liability. ..." and paragraph BC20 states that 'An advance receipt or payment of consideration *typically* gives rise to a non-monetary prepayment asset or a non-monetary deferred income liability. ...' [emphasis added]. The AASB thinks that the Committee should replace 'generally' and 'typically' with 'may', or clarify in the Basis for Conclusions why monetary prepayments do not generally (typically) arise;
- (d) IFRS 15 should be included as part of the References as it has formed part of the Committee's considerations in developing the draft Interpretation; and
- (e) The AASB thinks it is inappropriate for the Illustrative Examples to cross-reference to the Basis for Conclusions (refer footnotes 4 and 5 on page 14 of the draft Interpretation), and recommends these cross-references be deleted.