

Introduction of the Euro

This compiled UIG Interpretation applies to annual reporting periods beginning on or after 1 July 2009. Early application is permitted. It incorporates relevant amendments made up to and including 25 June 2009.

Prepared on 10 November 2009 by the staff of the Australian Accounting Standards Board.



Australian Government

**Australian Accounting
Standards Board**

Obtaining Copies of Interpretations

Compiled versions of Interpretations, original Interpretations and amending pronouncements (see Compilation Details) are available on the AASB website: www.aasb.gov.au.

Printed copies of original Interpretations and amending pronouncements are available for purchase by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Postal address:
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aaab.gov.au
Website: www.aasb.gov.au

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aaab.gov.au

COPYRIGHT

© 2009 Commonwealth of Australia

This compiled UIG Interpretation contains International Accounting Standards Committee Foundation copyright material. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to The Director of Finance and Administration, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Australia should be addressed to the International Accounting Standards Committee Foundation at www.iasb.org.

COMPILATION DETAILS

UIG Interpretation 107 *Introduction of the Euro as amended*

This compiled Interpretation applies to annual reporting periods beginning on or after 1 July 2009. It takes into account amendments up to and including 25 June 2009 and was prepared on 10 November 2009 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 107 (July 2004) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

Pronouncement	Month issued	Application date (annual reporting periods ... on or after ...)	Application, saving or transitional provisions
Interpretation 107	Jul 2004	(beginning) 1 Jan 2005	
AASB 2007-8	Sep 2007	(beginning) 1 Jan 2009	see (a) below
AASB 2007-10	Dec 2007	(beginning) 1 Jan 2009	see (a) below
AASB 2008-3	Mar 2008	(beginning) 1 Jul 2009	see (b) below
AASB 2009-6	Jun 2009	(beginning) 1 Jan 2009 and (ending) 30 Jun 2009	see (c) below

- (a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.
- (b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 30 June 2007 but before 1 July 2009, provided that AASB 3 *Business Combinations* (March 2008) and AASB 127 *Consolidated and Separate Financial Statements* (March 2008) are also applied to such periods.
- (c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods, and to annual reporting periods beginning on or after 1 January 2009 that end before 30 June 2009.

Table of Amendments

Paragraph affected	How affected	By ... [paragraph]
3	amended	AASB 2007-10 [104]
4	amended	AASB 2007-8 [156]
	amended	AASB 2008-3 [82]
Aus4.4	amended	AASB 2007-8 [8]
5	amended	AASB 2007-8 [6]
	amended	AASB 2009-6 [116]
6	amended	AASB 2009-6 [117]
7	amended	AASB 2009-6 [118]

COMPARISON WITH SIC-7

UIG Interpretation 107 *Introduction of the Euro* as amended incorporates Standing Interpretations Committee Interpretation SIC-7 *Introduction of the Euro*, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of SIC-7) are identified with the prefix “Aus”, followed by the number of the preceding SIC paragraph and decimal numbering.

Entities that comply with Interpretation 107 as amended will simultaneously be in compliance with SIC-7 as amended.

INTERPRETATION 107

UIG Interpretation 107 was issued in July 2004.

This compiled version of Interpretation 107 applies to annual reporting periods beginning on or after 1 July 2009. It incorporates relevant amendments contained in other AASB pronouncements up to and including 25 June 2009 (see Compilation Details).

URGENT ISSUES GROUP

INTERPRETATION 107

INTRODUCTION OF THE EURO

Issue

- 1 From 1 January 1999, the effective start of Economic and Monetary Union (EMU), the euro will become a currency in its own right and the conversion rates between the euro and the participating national currencies will be irrevocably fixed, that is the risk of subsequent exchange differences related to these currencies is eliminated from this date on.
- 2 The issue is the application of Accounting Standard AASB 121 *The Effects of Changes in Foreign Exchange Rates* to the changeover from the national currencies of participating Member States of the European Union to the euro ("the changeover").

Consensus

- 3 **The requirements of AASB 121 regarding the translation of foreign currency transactions and financial statements of foreign operations shall be strictly applied to the changeover. The same rationale applies to the fixing of exchange rates when countries join EMU at later stages.**
- 4 **This means that, in particular:**
 - (a) **foreign currency monetary assets and liabilities resulting from transactions shall continue to be translated into the functional currency at the closing rate. Any resultant**

exchange differences shall be recognised as income or expense immediately, except that an entity shall continue to apply its existing accounting policy for exchange gains and losses related to hedges of the currency risk of a forecast transaction;

- (b) cumulative exchange differences relating to the translation of financial statements of foreign operations, recognised in other comprehensive income, shall be accumulated in equity and shall be reclassified from equity to profit or loss only on the disposal or partial disposal of the net investment in the foreign operation; and
- (c) exchange differences resulting from the translation of liabilities denominated in participating currencies shall not be included in the carrying amount of related assets.

Application

- Aus4.1** This Interpretation applies when AASB 121 applies.
- Aus4.2** This Interpretation applies to annual reporting periods beginning on or after 1 January 2005.
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]
- Aus4.3** This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.
- Aus4.4** The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Discussion

- 5 AASB 121.23(a) requires that foreign currency monetary items (as defined by AASB 121.8) be reported using the closing rate at the end of each reporting period. According to AASB 121.28, exchange differences arising from the translation of monetary items generally should be recognised as income or as expenses in the period in which they arise. The effective start of the EMU after the reporting period does not change the application of these requirements at the end of the reporting period; in accordance with AASB 110 *Events after the Reporting Period*, paragraph 10, it is not relevant whether or not the closing rate can fluctuate after the reporting period.

- 6 AASB 121.5 states that the Standard does not apply to hedge accounting. Therefore, this Interpretation does not address how foreign currency hedges should be accounted for. AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* would allow such a change in accounting policy only if the change would result in a more appropriate presentation of events or transactions. The effective start of EMU, of itself, does not justify a change to an entity's established accounting policy related to hedges of forecast transactions because the changeover does not affect the economic rationale of such hedges.¹ Therefore, the changeover should not alter the accounting policy where gains and losses on financial instruments used as hedges of forecast transactions are initially recognised in other comprehensive income and matched with the related income or expense in a future period.
- 7 AASB 121.48 requires the cumulative amount of exchange differences relating to the translation of the financial statements of a foreign operation that have been recognised in other comprehensive income and accumulated in a separate component of equity in accordance with AASB 121.32 or 121.39(c) to be reclassified from equity to profit or loss in the same period in which the gain or loss on disposal or partial disposal of the foreign operation is recognised. The fact that the cumulative amount of exchange differences will be fixed under EMU does not justify immediate recognition as income or expenses because the wording and the rationale of AASB 121.48 clearly preclude such a treatment.

Date of SIC's Consensus: [Deleted by the UIG]

Effective Date of SIC-7: [Deleted by the UIG]

¹ The accounting for hedges is now covered under AASB 139 *Financial Instruments: Recognition and Measurement*.

REFERENCES

Australia

The Urgent Issues Group discussed Issues Paper UIG/SIC 03/1 “Adoption of Interpretation SIC-7 in Australia” at its meetings on 4 December 2003 and 12 February 2004.

Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

Accounting Standard AASB 110 *Events after the Reporting Period*

Accounting Standard AASB 121 *The Effects of Changes in Foreign Exchange Rates*

Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement*

International Accounting Standards Board

International Accounting Standard IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Standing Interpretations Committee Interpretation SIC-7 *Introduction of the Euro*