Australian Government
Australian Accounting Standards Board

Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600

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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@aasb.gov.au).

Yours sincerely,

K. E. Peach

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 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 is 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 is important to clarify the concept of monetary and non-monetary items within the body of the Interpretation, rather than in the Basis for Conclusions. In this regard, the AASB notes that paragraph AG11 of IAS 32 *Financial Instruments: Presentation* explains that prepaid expenses and deferred revenue are not financial assets and financial liabilities as the associated future economic benefit is not the right to receive, or contractual obligation to pay, cash or another financial asset. This suggests that such prepayments are non-monetary items whether or not there is a refund obligation. The AASB thinks it would be useful for the Interpretation to provide some guidance as to when a prepayment could be a monetary item so that the Interpretation is consistently applied to different transactions.

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 considers whether paragraph A2(b)(i) or (ii) applies should be dependent on the effective date of the standard, and the amount of time an entity will have to implement the Interpretation. As the Interpretation makes reference to IFRS 15 *Revenue from Contracts with Customers* in various places, the AASB notes that it is possible that the effective date of a final Interpretation is intended to be aligned with IFRS 15 (however, see also Other Comment (b) following Question 3). The AASB thinks, to enhance comparability between entities, entities should only be permitted to apply proposed paragraph A2(b)(i) if the effective date of the proposed amendments is determined to be earlier than the effective date of IFRS 15 as there may not be sufficient time to enable entities to provide comparatives. However, if the effective date of the proposed amendments is to be aligned with, or later than, the effective date of IFRS 15, the AASB thinks that only proposed paragraph A2(b)(ii) should be permitted as a transition option, given the longer lead time between issuance of a resultant Interpretation and its effective date.

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 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’;

(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) As the Basis for Conclusions is a summary of the considerations of the Committee in reaching its consensus rather than being part of the Interpretation, the AASB thinks the Illustrative Examples should not be cross-referenced to the Basis for Conclusions. The AASB recommends the cross-references in footnotes 5 and 6 on page 14 of the draft Interpretation be deleted. The AASB notes that the text “As noted in paragraph BC31” in footnotes 5 and 6 can be deleted without any loss of meaning.