

AASB 121 The Effects of Changes in Foreign Exchange Rates vs. IFRS for SMEs Section 30 Foreign Currency Translation

1. Executive Summary

Main differences in recognition, measurement or presentation requirements

The main difference in recognition and measurement requirements between the standards is that an exchange difference that is recognised initially in other comprehensive income is not reclassified in profit or loss on disposal of the investment under *IFRS for SMEs*.

Disclosure proposals

It is proposed to exclude paragraphs 55, 56 and 57 from the Reduced Disclosure Regime (RDR).

2. Analysis of disclosure requirements

Text in AASB 121 <i>The Effects of Changes in Foreign Exchange Rates</i>	Text in IFRS for SMEs Section 30 <i>Foreign Currency Translation</i>	Comment
<p>Disclosure</p> <p>51. In paragraphs 53 and 55-57 references to ‘functional currency’ apply, in the case of a group, to the functional currency of the parent.</p>	<p>Disclosure</p> <p>30.24 In paragraphs 30.26 and 30.27, references to ‘functional currency’ apply, in the case of a group, to the functional currency of the parent.</p>	<p>Paragraph 51 and paragraph 30.24 of the IFRS for SMEs correspond. Paragraph 51 should be retained in the RDR.</p>
<p>52. An entity shall disclose:</p> <p>(a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with AASB 139; and</p> <p>(b) net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.</p>	<p>30.25 An entity shall disclose the following:</p> <p>(a) the amount of exchange differences recognised in profit or loss during the period, except for those arising on financial instruments measured at fair value through profit or loss in accordance with Sections 11 and 12.</p> <p>(b) the amount of exchange differences arising during the period and classified in a separate component of equity at the end of the period.</p>	<p>Paragraph 52 and paragraph 30.25 of the IFRS for SMEs correspond. Paragraph 52 should be retained in the RDR.</p>
<p>53. When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.</p>	<p>30.26 An entity shall disclose the currency in which the financial statements are presented. When the presentation currency is different from the functional currency, an entity shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.</p>	<p>Paragraph 53 and paragraph 30.26 of the IFRS for SMEs correspond. Paragraph 53 should be retained in the RDR.</p>
<p>54. When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.</p>	<p>30.27 When there is a change in the functional currency of either the reporting entity or a significant foreign operation, the entity shall disclose that fact and the reason for the change in functional currency.</p>	<p>Paragraph 54 and paragraph 30.27 of the IFRS for SMEs correspond. Paragraph 54 should be retained in the RDR.</p>
<p>55. When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with</p>		<p>Paragraph 55 has no equivalent in the IFRS for SMEs. Based on the reasoning in paragraph IN3 of this Appendix,</p>

Text in AASB 121 <i>The Effects of Changes in Foreign Exchange Rates</i>	Text in IFRS for SMEs Section 30 <i>Foreign Currency Translation</i>	Comment
<p>Australian equivalents to IFRSs only if they comply with all the requirements of Australian equivalents to IFRSs including the translation method set out in paragraphs 39 and 42.</p>		<p>paragraph 55 should be excluded from the RDR.</p>
<p>56. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 55. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with Australian equivalents to IFRSs and the disclosures set out in paragraph 57 are required.</p>		<p>Paragraph 56 has no equivalent in the <i>IFRS for SMEs</i> and relates to paragraphs 55 and 57 which are not retained in the RDR. Based on the reasoning in paragraph IN3 of this Appendix, paragraph 56 should be excluded from the RDR.</p>
<p>57. When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 55 are not met, it shall:</p> <ul style="list-style-type: none"> (a) clearly identify the information as supplementary information to distinguish it from the information that complies with Australian equivalents to IFRSs; (b) disclose the currency in which the supplementary information is displayed; and (c) disclose the entity's functional currency and the method of translation used to determine the supplementary information. 		<p>Paragraph 57 has no equivalent in the <i>IFRS for SMEs</i>. Based on the reasoning in paragraph IN3 of this Appendix, paragraph 57 should be excluded from the RDR.</p>

3. AASB 121 *The Effects of Changes in Foreign Exchange Rates*: Text of Proposed Disclosures

The following are the disclosure requirements of AASB 121 *The Effects of Changes in Foreign Exchange Rates*, showing requirements from which it is proposed entities applying the RDR should be exempt as shaded text.

Disclosure

- 51. In paragraphs 53 and 55-57 references to ‘functional currency’ apply, in the case of a group, to the functional currency of the parent.**
- 52. An entity shall disclose:**
 - (a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with AASB 139; and**
 - (b) net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**
- 53. When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.**
- 54. When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.**
- 55. When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with Australian equivalents to IFRSs only if they comply with all the requirements of Australian equivalents to IFRSs including the translation method set out in paragraphs 39 and 42.**
- 56. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 55. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with Australian equivalents to IFRSs and the disclosures set out in paragraph 57 are required.**
- 57. When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 55 are not met, it shall:**
 - (a) clearly identify the information as supplementary information to distinguish it from the information that complies with Australian equivalents to IFRSs;**
 - (b) disclose the currency in which the supplementary information is displayed; and**
 - (c) disclose the entity’s functional currency and the method of translation used to determine the supplementary information.**