AASB Interpretation

Interpretation 107
August 2015

Introduction of the Euro

Australian Government

Australian Accounting Standards Board

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Contents

AASB Interpretation 107 *Introduction of the Euro* is set out in paragraphs 1 – Aus4.2. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation of Standards* and AASB 1057 *Application of Australian Accounting Standards* sets out their application. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

Comparison with SIC-7

AASB Interpretation 107 *Introduction of the Euro* incorporates Interpretation SIC-7 *Introduction of the Euro* issued by the International Accounting Standards Board (IASB). Australian-specific paragraphs (which are not included in SIC-7) are identified with the prefix "Aus. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Tier 1

For-profit entities complying with AASB Interpretation 107 also comply with SIC-7.

Not-for-profit entities' compliance with SIC-7 will depend on whether any "Aus" paragraphs that specifically apply to not-for-profit entities provide additional guidance or contain applicable requirements that are inconsistent with SIC-7.

AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of reporting requirements.

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References

- AASB 101 *Presentation of Financial Statements*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 110 *Events after the Reporting Period*
- AASB 121 *The Effects of Changes in Foreign Exchange Rates*

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, ie the risk of subsequent exchange differences related to these currencies is eliminated from this date on.

2 The issue is the application of AASB 121 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.

Date of consensus

[Deleted by the AASB]

Effective date

[Deleted by the AASB]

Aus4.1 This Interpretation applies to annual periods beginning on or after 1 January 2018. Earlier application is permitted for periods beginning on or after 1 January 2014 but before 1 January 2018.

Withdrawal of AASB pronouncements

Aus4.2 When applied or operative, this Interpretation supersedes Interpretation 107 *Introduction of the Euro* issued in July 2004.

Basis for Conclusions on
SIC-7 *Introduction of the Euro*

This Basis for Conclusions accompanies, but is not part of, AASB Interpretation 107. An SIC Basis for Conclusions may be amended to reflect any additional requirements in the AASB Interpretation or AASB Accounting Standards.

[The original text has been marked up to reflect the revision of IAS 21 in 2003 and IAS 1 in 2007 and the amendment of IAS 27 in 2008:[1] new text is underlined and deleted text is struck through.]

5 IAS 21.23~~11~~(a) requires that foreign currency monetary items (as defined by IAS 21.8~~07~~) be reported using the closing rate at ~~each balance sheet date~~ the end of each reporting period. According to IAS 21.28~~15~~, 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 ~~balance sheet date~~ does not change the application of these requirements at the end of the reporting period ~~balance sheet date~~; in accordance with IAS 10.10~~28~~[2] it is not relevant whether or not the closing rate can fluctuate after the ~~balance sheet date~~ reporting period.

6 IAS 21.5~~14~~ states that the Standard does not apply to ~~deal with~~ hedge accounting~~, except in restricted circumstances~~. Therefore, this Interpretation does not address how foreign currency hedges should be accounted for. IAS 8~~.42~~ would allow such a change in accounting policy only if the change would result in a more appropriate presentation of events or transactions.[3] The effective start of EMU, of itself, does not justify a change to an entity's established accounting policy related to ~~anticipatory~~ hedges of forecast transactions because the changeover does not affect the economic rationale of such hedges. Therefore, the changeover should not alter the accounting policy where gains and losses on financial instruments used as ~~anticipatory~~ hedges of forecast transactions are ~~currently deferred~~ initially recognised in ~~equity~~ other comprehensive income and matched with the related income or expense in a future period.

7 IAS 21.48~~37~~ requires the cumulative amount of exchange differences relating to the translation of the financial statements of a foreign operation ~~entity which~~ that have been ~~deferred in equity~~ recognised in other comprehensive income and accumulated in a separate component of equity in accordance with IAS 21.~~17~~, ~~19 or 30~~32 or 39(c) to be ~~recognised as income or expenses~~ 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 ~~entity~~ 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 ~~since~~ because the wording and the rationale of IAS 21.48~~37~~ clearly preclude such a treatment.

~~8 Under the Allowed Alternative Treatment of IAS 21.21, exchange differences resulting from severe devaluations of currencies are included in the carrying amount of the related assets in certain limited circumstances. Those circumstances do not apply to the currencies participating in the changeover since the event of severe devaluation is incompatible with the required stability of participating currencies.~~

1 The consolidation requirements in IAS 27 were superseded, and IAS 27 was renamed *Separate Financial Statements*, by IFRS 10 *Consolidated Financial Statements* issued in May 2011.

2 ~~IAS 10 (revised in 1999), paragraph 20, contains similar requirements.~~

3 As SIC-7 was issued before IAS 39, the previous version of this Interpretation could refer only to the entity's own accounting policies on the matter. The accounting for hedges was subsequently covered under IAS 39 *Financial Instruments: Recognition and Measurement*. In November 2013 the Board replaced the hedge accounting requirements in IAS 39 and relocated them to IFRS 9 *Financial Instruments*.

Deleted SIC-7 text

Deleted SIC-7 text is not part of AASB Interpretation 107.

Date of consensus

October 1997

Effective date

This Interpretation becomes effective on 1 June 1998. Changes in accounting policies shall be accounted for according to the requirements of IAS 8.

IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraph 4. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

IAS 27 (as amended in 2008) amended paragraph 4(b). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies IAS 27 (amended 2008) for an earlier period, the amendment shall be applied for that earlier period.