

## IFRS for SMEs Section 30

### Recycling of cumulative exchange differences on disposal of a subsidiary

Q&As are published by the SME Implementation Group (SMEIG), which assists the IASB<sup>1</sup> in supporting the implementation of the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. The Q&As are intended to provide non-mandatory and timely guidance on specific accounting questions that are being raised with the SME Implementation Group by users implementing the *IFRS for SMEs*.

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#### Issue

- 1 Paragraph 30.13 requires exchange differences arising on translation of a monetary item that forms part of a reporting entity's net investment in a subsidiary to be recognised initially in other comprehensive income and to be reported as a component of equity. It specifically prohibits those cumulative exchange differences from being recognised in profit or loss (ie 'recycled') on disposal of that net investment.
- 2 Paragraph 30.18 similarly requires exchange differences arising on translation of a foreign subsidiary into the group's presentation currency for consolidation purposes to be recognised in other comprehensive income. However, paragraph 30.18 is silent on recycling. Are the cumulative exchange differences that arise on translation into a presentation currency also prohibited from being recognised in profit or loss on disposal of the subsidiary?

#### Response

- 3 Yes. Paragraph 9.18 states "The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, excluding the cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in equity in accordance with Section 30 *Foreign Currency Translation*, is recognised in the consolidated statement of comprehensive income (or the income statement, if presented) as the gain or loss on the disposal of the subsidiary". The word 'excluding' should be interpreted as 'not taking the exchange difference into account in measuring the gain or loss on disposal'.

<sup>1</sup> International Accounting Standards Board (IASB)  
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## Basis for Conclusions

- BC1 Paragraph 9.18 is based on IAS 27(r2003).30, which states “The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in other equity in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary”. Paragraph 9.18 states ‘excluding’ in contrast to ‘including’ in IAS 27(r2003).30. This change was deliberately made by the IASB. ‘Excluding’ in this instance does not mean ‘minus’ or ‘after subtracting’. Instead, the use of ‘excluding’ was intended to clarify that the profit or loss recognised on disposal does not include any exchange differences recognised in other comprehensive income. Consequently, profit and loss will reflect the difference between the proceeds and the carrying amount of the subsidiary at the disposal date.
- BC2 Paragraph BC123 of the Basis for Conclusions issued with the *IFRS for SMEs* makes it clear that it was the Board’s decision to prohibit all cumulative exchange differences recognised in other comprehensive income from being reclassified to profit or loss on disposal of the related subsidiary. Paragraph BC123 states that “an exchange difference that is recognised initially in other comprehensive income is not reclassified in profit or loss on disposal of the investment”. Paragraph BC123 also notes that this requirement is a difference from full IFRSs, which was made to eliminate the burden for SMEs of tracking the exchange differences after initial recognition.

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