

## STAFF PAPER

December 2014

## ASAF Meeting

<b>Project</b>	<b>Foreign Currency Translation</b>		
<b>Paper topic</b>	Cover paper for ASAF meeting		
<b>CONTACT(S)</b>	Hannah King	hking@ifrs.org	+44 (0)20 7246 6961

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

## Introduction

1. At its meeting in October 2014, the IASB considered whether it should continue to pursue a research project on accounting for foreign currency translations and, if so, what the scope of such a project should be. Specifically, the IASB discussed proposals from the Korea Accounting Standards Board (KASB) to:
  - (a) address a narrow-scope issue on long-term monetary items; and
  - (b) undertake a comprehensive review of the conceptual basis of IAS 21.
2. As noted in the IASB *Update* reproduced in Appendix A, the IASB decided:
  - (a) not to further develop a proposal for a narrow-scope amendment to IAS 21 that would apply in the rare combination of circumstances in which a currency is thinly traded and there is a financial crisis, causing a period of high volatility for that currency. The proposal questioned whether, in such circumstances, the closing rate used to translate long-term foreign currency monetary items reflects the market's best estimate of future events that affect those currencies; and
  - (b) to retain Foreign Currency Translation in its Research Programme, but as a longer-term project.
3. The IASB noted that for its longer-term research project, it would be helpful to have more input from the KASB and other bodies interested in the topic, for example, from

the wider accounting standard-setting community. The focus of any work by those bodies should be on the broader issues related to IAS 21, such as performance reporting, rather than on narrow-scope issues. The IASB has asked the staff to liaise with the KASB and other interested bodies to discuss ways in which those bodies could usefully conduct further research on Foreign Currency Translation.

4. The IASB decided to include Foreign Currency Translation as a topic for its next Agenda Consultation, which is due to start in 2015.<sup>1</sup>
5. The implication of these decisions is that while the IASB acknowledges that IAS 21 does not include a meaningful objective or provide a Basis for Conclusions, the IASB is not convinced that there is an urgent need to address the Standard on a comprehensive basis. Including the topic as part of its Agenda Consultation gives stakeholders, including National Standard-Setters, the opportunity to provide input into the priority the IASB should give to the topic in the future.
6. Moving the research project onto a longer-term and broader-focused basis also means that the IASB or the IFRS Interpretations Committee, as appropriate, can address specific narrow-scope issues in respect of IAS 21 as they arise, without conflicting with the research project.

### **Input from ASAF**

7. Taking into account the IASB's current focus, we would like to ask members of the ASAF:
  - (a) if you have any interest in researching the broader conceptual issues and concerns related to IAS 21; and
  - (b) how that research could help provide input into the priority the IASB should give to the topic in the future, including how the material or issues might be presented in a manner that helps participants in the next Agenda Consultation.
8. The KASB has already carried out a significant amount of work in this area that will continue to be helpful in terms of the research project and the future Agenda

---

<sup>1</sup> See Agenda Paper 12 on the 2015 Agenda Consultation.

Consultation. For example, the KASB's Supplementary Document to its response to the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* helpfully analyses different conceptual bases and their accounting consequences for the translation of foreign currency items into the entity's functional currency.

9. Topics to explore could include, for example:
  - (a) the conceptual measurement bases for:
    - (i) reporting transactions in a foreign currency; and
    - (ii) for translating the financial statements of a net investment in a foreign operation;
  - (b) how relevant the concepts in IFRS 13 *Fair Value Measurement* could be for determining the spot exchange rate; and
  - (c) performance reporting, including use of OCI and recycling, based on the current *Conceptual Framework* thinking.

### **IASB Agenda Papers**

10. While the IASB did not completely agree with all the staff recommendations in the IASB Agenda Papers for October 2014, they provide useful background information as a basis for our discussions. The most relevant papers, which have been reproduced for the ASAF meeting, are:
  - (a) Agenda Paper 8A: *Foreign Currency Translation—Cover Paper*. This gives some background information on the research project.
  - (b) Agenda Paper 8B: *Proposal for comprehensive review*. This paper summarises and considers two papers prepared by the KASB as the basis for a comprehensive review of the conceptual basis for translating foreign currency transactions into an entity's functional currency.
  - (c) Agenda Paper 8C: *The KASB Papers*. This contains copies of the KASB's papers that are referred to in the Agenda Papers. The papers in Appendices B and C are relevant for the ASAF meeting.

11. The other IASB papers for October 2014 considered specific narrow-scope issues, as noted below. The IASB decided not to pursue these specific narrow-scope issues further and also decided that the focus of its longer-term research project should be on the broader conceptual bases. Hence, we do not intend to discuss the issues in these papers at the ASAF meeting.
- (a) IASB Agenda Paper 8A(a): *Long-term monetary items*.<sup>2</sup> This paper considers the KASB's proposal for a narrow-scope amendment to IAS 21 to permit or require an alternative to the closing rate for translating foreign currency long-term monetary items in entity accounts in some restricted and rare circumstances.
- (b) IASB Agenda Paper 8A(c): *Other issues*.<sup>3</sup> This paper reviews other narrow-scope issues relating to IAS 21 that have been raised to the IFRS Interpretations Committee in the past and other narrow-scope, largely practical issues raised by the KASB and its Working Group.

---

<sup>2</sup> See [Agenda Paper 8A\(a\) for the IASB meeting in October 2014](#).

<sup>3</sup> See [Agenda Paper 8A\(c\) for the IASB meeting in October 2014](#).

## Appendix A—Extract from IASB Update

### IASB Update—October 2014

#### Foreign Currency Translation (Agenda Paper 8A)

On 22 October 2014, the IASB met to discuss whether to pursue a longer-term project on accounting for foreign currency translations, and if so, what would be the scope of such a project. The IASB noted the matters raised by the Korea Accounting Standards Board (KASB). In particular, the IASB discussed:

- (a) a proposal from the KASB for a narrow-scope amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates* in respect of long-term monetary items;
- (b) a proposal for a comprehensive review of IAS 21; and
- (c) other specific narrow-scope issues relating to IAS 21.

#### *Agenda Paper 8A(a): Long-term monetary items*

The IASB discussed a proposal for a narrow-scope amendment to IAS 21 that would apply in the rare combination of circumstances when a currency is thinly traded and there is a financial crisis, causing a period of high volatility for that currency. The KASB questioned whether, in such circumstances, the closing rate used to translate long-term foreign currency monetary items reflects the market's best estimate of future events that affect those currencies. The IASB decided not to develop that proposal further.

#### *Agenda Paper 8A(b): Proposal for a comprehensive review*

The IASB decided to retain Foreign Currency Translation in its Research Programme, but as a longer-term project. The IASB noted that it would be helpful to have more input from the KASB and other bodies interested in the topic, such as other National Standard-Setters, and that the focus of any work by those bodies should be on the broader issues related to IAS 21, such as performance reporting, rather than on narrow-scope issues.

#### *Agenda Paper 8A(c): Other issues*

The IASB considered other narrow-scope issues and other practical issues relating to IAS 21 that have been either:

- (a) raised with the IFRS Interpretations Committee, but that have not taken onto its agenda; or
- (b) identified through the work of the Korea Accounting Standards Board.

The IASB decided not to pursue any of the matters further, for the reasons set out in Agenda Paper 8A(c).

All 14 IASB members agreed with these decisions.

#### **Next steps**

The IASB asked the staff to liaise with the Korea Accounting Standards Board and other interested bodies to discuss ways in which those bodies could usefully conduct further research on Foreign Currency Translation. The IASB will include Foreign Currency Translation as a topic for its next Agenda Consultation, which is due to start in 2015.