

STAFF PAPER

October 2016

IASB Meeting

Project	Foreign Currency Transactions and Advance Consideration		
Paper topic	Ratification of the IFRIC [®] Interpretation		
CONTACT(S)	Michelle Sansom	msansom@ifrs.org	+44 (0)20 7246 6963
	Arjuna Dangalla	adangalla@ifrs.org	+44 (0)20 7246 6473
	Sung Ho Joo	sjoo@ifrs.org	+44 (0)20 7246 6947

This paper has been prepared for discussion at an International Accounting Standards Board (the Board) public meeting and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application. Technical decisions are made in public and reported in *IASB[®] Update*.

Purpose of the paper

1. The purpose of this paper is to ask the International Accounting Standards Board (the Board) to ratify the IFRIC Interpretation *Foreign Currency Transactions and Advance Consideration* (the Interpretation).
2. Paragraphs 7.23–7.26 of the *Due Process Handbook* set out the requirements for the ratification of an Interpretation. In summary:
 - (a) after the Interpretation has been balloted by the IFRS Interpretations Committee (the Interpretations Committee), it is submitted to the Board for ratification.
 - (b) ratification by the Board must take place in a public meeting and requires a supermajority (ie nine members in favour).
 - (c) a Board member may dissent from ratification of the Interpretation. If that is the case, the dissent and the reasons for doing so are stated in the approvals section of the Interpretation.

Papers for this meeting

3. The following papers are presented for discussion at this meeting:
 - (a) Agenda Paper 12A – Ratification of the IFRIC Interpretation (this paper);
 - (b) Agenda Paper 12A(i) – Post-ballot draft: IFRIC Interpretation *Foreign Currency Transactions and Advance Consideration*; and
 - (c) Agenda Paper 12A(ii) – Foreign Currency Transactions and Advance Consideration—Due Process (discussed at the July 2016 Interpretations Committee meeting).

Background

4. The Interpretations Committee received a question asking how to determine ‘the date of the transaction’ applying paragraphs 21–22 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* when recognising revenue. The question specifically addressed circumstances in which an entity recognises a non-monetary liability arising from the receipt of advance consideration before it recognises the related revenue. In discussing the issue, the Interpretations Committee noted that the receipt or payment of advance consideration is not restricted to revenue transactions. Accordingly, the Interpretations Committee decided to clarify the date of the transaction applying paragraphs 21–22 of IAS 21 when an entity has received or paid advance consideration in a foreign currency.
5. The Interpretation requires that, when applying paragraphs 21–22 of IAS 21, the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from advance consideration.
6. The Interpretations Committee set out its proposals in this respect in the draft Interpretation *Foreign Currency Transactions and Advance Consideration* published in October 2015. The comment period ended in January 2016; the Interpretations Committee received 45 comment letters.

7. At its meetings in May and July 2016, the Interpretations Committee discussed the feedback received and reached agreement on all technical matters.

Summary of the Interpretation Committee's redeliberations

8. Overall, respondents supported the proposals in the draft Interpretation. There have been no substantive changes made to those proposals during redeliberations.
9. We wish to bring the following matters discussed by the Interpretations Committee to the Board's attention:
 - (a) effective date—the Interpretations Committee decided that the effective date of the Interpretation should be 1 January 2018, with earlier application permitted. This date is aligned with the effective date of IFRS 15 *Revenue from Contracts with Customers*; many of the transactions within the scope of the Interpretation will also be within the scope of IFRS 15.
 - (b) transition relief has been provided for first-time adopters. This addresses feedback from respondents that applying the draft Interpretation may be burdensome for first-time adopters. The Interpretation therefore includes a consequential amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The consequential amendment will enable a first-time adopter to apply the Interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRSs for which non-monetary assets or non-monetary liabilities have been recognised before that date.

Due process

10. At its meeting in July 2016, the Interpretations Committee reviewed the due process steps undertaken. The Interpretations Committee concluded that the due process requirements had been met and that it had undertaken sufficient consultation and analysis to begin the balloting process. A copy of the paper discussed by the Interpretations Committee at its July 2016 meeting is reproduced as Agenda Paper 12A(ii) for this meeting.

11. In accordance with the *Due Process Handbook*, balloting of the Interpretation took place in August and September 2016. No member of the Interpretations Committee objected to the Interpretation.

Question

Does the Board agree to ratify the Interpretation *Foreign Currency Transactions and Advance Consideration*, as set out at Agenda Paper 12A(i)?