

22 January 2016

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO DRAFT IFRIC INTERPRETATION (DI) – FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

ISCA sought views from its members on the above DI through a one-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

We welcome the guidance proposed by IASB's IFRS Interpretation Committee (IFRIC) to reduce diversity in practice. Prior to this DI, the determination of the 'date of transaction' in accordance with IAS 21 paragraph 22 for foreign currency transactions in which consideration was received or paid in advance of the recognition of the related asset, expense or income was not clear. This DI provides clarity that non-monetary prepayment asset or non-monetary deferred income liability should not be re-translated notwithstanding that the asset, expense or income is recognised on a later date.

Our detailed comments and responses to specified questions in the DI are set out below.

Question 1—Scope

The draft Interpretation addresses how to determine the date of the transaction for the purpose of determining the spot exchange rate used to translate foreign currency transactions on initial recognition in accordance with paragraphs 21–22 of IAS 21.

Foreign currency transactions that are within the scope of the draft Interpretation are described in paragraphs 4–6 of the draft Interpretation.

Do you agree with the scope proposed in the draft Interpretation? If not, what do you propose and why?

We note that the scope of the DI includes only prepayment asset or deferred income liability which are non-monetary items, and that the illustrative examples indicated that 'non-cancellable contracts' and 'non-refundable payments/receipts' are distinguishing features of a non-monetary item. However in practice, it is common for advances paid or received to be refunded in the event of non-performance of contracts under consumer or contract law. Given this, we believe that the DI would be more useful and effective in reducing diversity in practice if it were to address more clearly what non-monetary items are.

Question 2—Consensus

The consensus in the draft Interpretation provides guidance on how to determine the date of the transaction for the purpose of determining the spot exchange rate used to translate the asset, expense or income (or part of it) on initial recognition that relates to, and is recognised on the derecognition of, a non-monetary prepayment asset or a non-monetary deferred income liability (see paragraphs 8–11). The basis for the consensus is explained in paragraphs BC22–BC33. This includes the Interpretations Committee's consideration of the interaction of the draft Interpretation and the presentation in profit or loss of exchange differences arising on monetary items in accordance with paragraphs 28–29 of IAS 21 (see paragraphs BC32–BC33).

Do you agree with the consensus proposed in the draft Interpretation? If not, why and what alternative do you propose?

We agree with the consensus proposed in the DI. As stated in BC23, there could be two ways of identifying 'the transaction' for the purpose of determining which exchange rate to use – the 'one-transaction' approach or the 'multi-transaction' approach. We agree with the DI's conclusion that the 'one-transaction' approach is a more appropriate interpretation of IAS 21 when the advance consideration gives rise to a non-monetary prepayment asset or a non-monetary deferred income liability. In addition to the reasons given under BC25, this 'one-transaction' approach is consistent with the concept of hedge accounting for foreign currency risk.

Should you require any further clarification, please feel free to contact Ms Lim Ju May, Deputy Director, Technical Advisory and Professional Standards, or Ms Jezz Chew, Manager, Technical Advisory and Professional Standards, from ISCA via email at jumay.lim@isca.org.sg or jezz.chew@isca.org.sg respectively.

Yours faithfully,


Mr Titus Kuan
Director
Technical Advisory and Professional Standards