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Certified Public Accountants
香港會計師公會

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Sent electronically through the IASB Website (www.ifrs.org)

30 December 2015

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

Dear Hans,

IASB Draft IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration*

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Draft IFRIC Interpretation.

We appreciate the IASB's effort to provide guidance on which exchange rate should be used to report foreign currency transactions when payment is made or received in advance. We consider that DI/2015/2 would remove the diversity in accounting for foreign currency transactions that involve advance consideration, provided that the Interpretation is sufficiently clear about the distinction between 'monetary' and 'non-monetary' in such cases.

Our responses to the questions raised in the Draft IFRIC Interpretation are explained in more detail in the Appendix.

If you have any questions regarding the matters raised in this letter, please contact me or Katherine Leung, Manager in the Standard Setting Department, at katherineleung@hkicpa.org.hk.

Yours sincerely,

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Detailed comments on IASB Draft IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration*

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 support the scope proposed in the Draft IFRIC Interpretation for the reasons set out in the Basis of Conclusions.

However, we are concerned that the Draft IFRIC Interpretation does not explicitly address the key gating question of when is a prepayment asset or a deferred income liability a 'non-monetary' item. In this regard we note that Examples 2 and 4 of the draft Interpretation indicate that 'non-cancellable' and 'non-refundable' are distinguishing features of a non-monetary item. However, it is a typical feature of consumer or contract law that amounts paid in advance for promised goods or services should be refunded if the counter-party fails to deliver those goods or services. Given this, we believe that the scope section of the Draft IFRIC Interpretation should address more clearly:

(a) whether an advance payment is a non-monetary item if it would only be refundable in the case of non-performance by the party that has promised to deliver goods or services; and

(b) whether the answer to (a) is the same for both prepayment assets and deferred income liabilities, or differs depending on whether the reporting entity is the party which made the payment or the party which promised to deliver the goods or services.

Without such clarity on the meaning of 'non-monetary' specifically as it applies to prepayment assets and deferred income liabilities there may still continue to be some diversity in practice as to when this Interpretation should be applied.

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 consider that the guidance on how to determine the date of the transaction is appropriate and aligned with paragraphs 21-22 of IAS 21. These paragraphs in IAS 21 require that a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. The date of transaction is the date on which the transaction first qualifies for recognition in accordance with IFRSs.

In relation to transactions where the entity enters into a contract, receives/pays consideration and transfers goods/services all in one-transaction, we agree with the Interpretations Committee's views in paragraph BC25 of the Draft IFRIC Interpretation. That is; when the advance consideration gives rise to a non-monetary prepayment asset or a non-monetary deferred income liability, the entity is no longer exposed to foreign exchange risk in respect to the transaction to the extent that it has received or paid any consideration and it would not be subsequently retranslated.

For transactions recognised in stages, we agree with the Interpretations Committee's view in paragraph BC29 that an entity has no foreign exchange risk in respect of the foreign currency amounts already paid or received, but is still exposed to foreign exchange risk in respect of the outstanding consideration. In this case, the entity should use the spot exchange rate for each date to translate that part of the transaction. When that date is the date of the initial recognition of a non-monetary prepayment asset or a non-monetary deferred income liability, the same exchange rate is used on initial recognition of the related part of the asset, expense or income. We believe that this is consistent with current accounting in practice.

Also, we agree that this Draft IFRIC Interpretation is the interpretation of the meaning of the 'date of transaction' for the purpose of initial recognition of a foreign currency transaction in a functional currency in accordance with paragraphs 21-22 of IAS 21. The presentation of exchange differences in profit or loss should not be addressed in this Draft IFRIC Interpretation.

Question 3 – Transition

On initial application, entities would apply the proposed Interpretation either:

(a) retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; or

(b) prospectively to all foreign currency assets, expenses and income in the scope of the proposed Interpretation initially recognised on or after:

- **(i) the beginning of the reporting period in which an entity first applies the proposed Interpretation; or**

(ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which an entity first applies the proposed Interpretation.

Do you agree with the proposed transition requirements? If not, what do you propose and why?

We agree with the Interpretations Committee that full retrospective application on transition of the Draft IFRIC Interpretation may be burdensome as entities may not have sufficient information to restate transactions with multiple receipts or payments that were recognised over a period of time. Accordingly, the cost of retrospective application may outweigh the benefits to users.

Therefore, we agree with the proposed transition application in the Draft IFRIC Interpretation.

~ End ~