19 January 2016

IFRS Interpretations Committee
30 Cannon Street
London
EC4M 6XH
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON DRAFT IFRIC INTERPRETATION DI/2015/02 – *FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION*

In response to your request for comments on DI/2015/02 – *Foreign Currency Transactions and Advance Consideration,* attached is the comment letter prepared by the Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Kevin Davies
Chairman of the Accounting Practices Committee

Bongeka Nodada
Project Director – Financial Reporting Standards

GENERAL COMMENTS

We welcome the IFRS Interpretation Committee's (Interpretation Committee) draft Interpretation on Foreign Currency Transactions and Advance Consideration.

Our responses to questions 1 to 3 below express specific matters that we would like to bring to the Interpretation Committee's attention.

SPECIFIC COMMENTS

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 agree with the scope as proposed. However, we propose that the Interpretations Committee include a definition of the term *non-monetary prepayment asset or liability* in the final Interpretation as the draft Interpretation does not define this term explicitly, nor does it refer to the description of the characteristics as described in paragraph 16 of IAS 21.

Non-refundable payments in advance are used as examples for non-monetary prepayment assets and liabilities throughout the draft Interpretation (see introduction, Illustrative Examples IE2, IE5, IE11, IE15 and the Basis for Conclusions) and therefore propose to include a definition in the Interpretation as a matter of clarification or to refer to the existing definition of monetary items in paragraph 8 of IAS 21 and the characteristics of monetary items in paragraph 16 of IAS 21.

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 proposed guidance on determining the date of the transaction for the purpose of determining the applicable spot exchange rate.

However, by referring to the date of the transaction and the respective spot rate in paragraph 8 (a) and (b), this might be understood as requiring entities to use daily rates and thereby limiting the practical expedient in terms of paragraph 22 of IAS 21, which allows entities to use average rates for a week or a month if exchange rates do not fluctuate significantly. An (unintended) outcome of this understanding might be a requirement for entities to apply daily-type accounting for transactions in foreign currencies. We propose to the Interpretations Committee to clarify that the draft Interpretation does not override or limit the application of the practical expedient in paragraph 22 of IAS 21 and that the use of average rates that approximate the spot rate at the date of the transaction will still be acceptable, provided that the criteria in paragraph 22 of IAS 21 are met.

Furthermore, we welcome the use of illustrative examples in IE1 to IE17 to illustrate the principles of the draft Interpretation. However, we would like to point out that these examples should only be understood as an explanation of the principles inherent in IAS 21 and this draft Interpretation do not provide guidance on how to apply other standards and interpretations. For example, IE15 exemplifies a transaction which is accounted for in terms of IFRS 15 – *Revenue from Contracts with Customers* and consists of multiple receipts for revenue recognised at multiple points in time. In our view, the appropriate accounting in terms of IFRS 15 for multiple deliverables should be based on the concrete facts and circumstances and IE15 should not be understood as an example or guidance on the application of IFRS 15 to such transactions. In the example, the prepayment is allocated in full to the first element delivered. This may not be the appropriate allocation for all transactions in terms of IFRS 15.

We therefore propose to the Interpretations Committee to include a comment in the illustrative examples that these examples only illustrate the application of IAS 21 and this draft Interpretation and the examples should not be understood as guidance on the application of other standards and interpretations. In addition, any assumptions made in these examples should be clearly stated, for example, the existence of offsetting arrangements between the supplier and customers related to prepayments and similar assumptions that may impact the accounting for the transactions described in the examples.

A further comment relates to the scope of the draft Interpretation in paragraph 5(b) in connect with Example 1 (IE 2 – IE4): The definitions of cost in paragraph 6 of IAS 16 and paragraph 8 of IAS 38 d are "*the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset* ***at the time of its acquisition or construction*** *or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, e.g. IFRS 2 Share-based Payment*". (emphasis added).

The highlighted words may appear to preclude the treatment shown in Example 1 (which we believe is not the intention) on the basis that the transaction is excluded from the scope of the draft Interpretation under paragraph 5(b), i.e. in this case, the acquisition date is not the date on which the payment was made. However, if the prepayment could be considered 'an amount attributed to that asset […] in accordance with the specific requirements of other IFRSs', i.e. the second part of the definition, then the draft Interpretation can be applied as written.

We therefore suggest that clarifying wording is included to indicate that the second part of the definition of cost should be used for this purpose.

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 welcome the Interpretation Committee's approach to provide entities several options with respect to the transition and agree with the options conceptually. However, the consequence of providing several options may be reduced comparability between entities for the respective transition period.

Furthermore, we would like to point out~~, however,~~ that the distinction between retrospective application in terms of paragraph A2.(a) and prospective application in terms of paragraph A2.(b).(i) and (ii) is not fully consistent with the described approaches in our view: Paragraph A2.(b).(ii) is referred to as prospective application, but requires entities to apply the draft Interpretation to all assets, expenses and income in the scope of the draft Interpretation initially recognised on or after the beginning of a prior reporting period presented as comparative information.

We raise the question whether the application of the draft Interpretation to certain items recognised in a prior reporting period is fully consistent with the term prospective application.

In our view, the approach presented in paragraph A2.(b).(ii) may be referred to as a modified retrospective application, rather than prospective application.

We therefore propose to the Interpretations Committee to re-arrange the order of options presented and amend the term *prospectively* with respect to option A2.(b).(ii) to *modified retrospectively* and to amend the term *retrospectively* as used in A2.(a) to *fully retrospectively* to highlight the difference between this option and the approach presented in A2.(b).(ii) in the current draft Interpretation. Our proposed wording and order of options of the amended paragraph A2 is as follows:

A2 On initial application, an entity shall apply this [draft] Interpretation either:

(a) *fully retrospectively* ~~retrospectively~~ to each prior reporting period presented in accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) *modified retrospectively* ~~prospectively~~ to all assets, expenses and income in the scope of the [draft] Interpretation initially recognised on or after ~~(i) *the beginning of the reporting period in which an entity first applies the proposed Interpretation; or*~~ the beginning of a prior period reporting period presented as comparative information in the financial statements of the reporting period in which an entity first applies the [draft] Interpretation; or

(c) *prospectively to all assets, expenses and income in the scope of the [draft] Interpretation initially recognised on or after the beginning of the reporting period in which an entity first applies the [draft] Interpretation.*

Paragraph A3 would need to be amended accordingly in order to reflect any changes made to the order of options and wording in paragraph A2 as described above.

#539936