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Dear Wayne,

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

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the IFRS IC's Draft Interpretation DI/2015/2 Foreign Currency Transactions and Advance Consideration (the 'Draft Interpretation'). We appreciate the opportunity to respond to the Draft Interpretation.

We welcome the IFRS Interpretation Committee's intention to develop guidance on the accounting for foreign currency transactions in circumstances in which consideration is received or paid in advance of the recognition of the related asset, expense or income as we believe it will reduce the diversity in practice. Overall, we agree with the consensus proposed in the Draft Interpretation. However, we note that the 'one-transaction' approach the consensus proposed in the Draft Interpretation is based on is but one possible reading of the principles in IAS 21 *The Effects of Changes in Foreign Exchange Rates* the Draft Interpretation refers to. For further details we refer to the appendix.

If you would like to discuss our views further, please do not hesitate to contact me.

Yours sincerely,

*Andreas Barckow*
President

**Appendix**

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| **Question 1—Scope**<br>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.<br>Do you agree with the scope proposed in the draft Interpretation? If not, what do you propose and why? |

We agree with the scope proposed in the Draft Interpretation.

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| **Question 2—Consensus**<br>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).<br>Do you agree with the consensus proposed in the draft Interpretation? If not, why and what alternative do you propose? |

The consensus proposed in the Draft Interpretation is based on the 'one-transaction' approach. Paragraphs BC23-BC27 of the Draft Interpretation contain the reasons why the IFRS Interpretations Committee concluded that this approach was a more appropriate interpretation of IAS 21 when an advance consideration gives rise to a non-monetary prepayment asset or a non-monetary deferred income liability. We acknowledge these reasons despite noting that the one-transaction approach is but one possible reading of the principles in IAS 21. The existence of different interpretations of the same principle suggests that there is diversity in practice with respect to determining the transaction date in accordance with paragraphs 21 and 22 of IAS 21. Even though the consensus proposed by the IFRS Interpretations Committee is only one of the possible interpretations of these paragraphs, we acknowledge that the Committee attempts to eliminate existing diversity in practice with its Draft Interpretation and, therefore, agree with proposed consensus.

Notwithstanding our consent, we would like to flag a few issues that we believe warrant further clarification when proceeding to the final interpretation. Firstly, we note that the consensus reached in the Draft Interpretation will lead to differences in the recognition of the related asset, expense or income for transactions, of which one is denominated in a foreign currency and the other denominated in the functional currency. If one took the basic principle of IFRS 15 *Revenue from Contracts with Customers* for recognising revenue, ie revenue is recognised as and when the entity fulfils its performance obligation(s), and if one considered the perspective of the entity meeting its performance obligations, both performance obligations are fulfilled at the same point in time, so one could argue that their associated revenue should also be recognised in the same amount – which the Draft Interpretation would no longer allow for.

Secondly, we note that the scope of the Draft Interpretation is limited to prepayment assets or deferred income liabilities that are non-monetary in nature (paragraphs 4(c)/BC21). In many instances, it is not readily apparent whether an item recognised should be regarded as monetary or non-monetary item. An advance consideration received that must be settled by delivery of goods or services might be an example of a non-monetary item. However, if the advance was refundable, not only in case of a default by either party, this may indicate that the advance consideration received is a monetary item. As the current guidance for the distinction between monetary and non-monetary items is blurred, only the ’multi-transaction’ approach would ensure that the amount of revenue recognised did not depend on the timing of the consideration paid or received and, hence, the classification of an advance consideration as monetary or non-monetary item. Otherwise, the ultimate amount of revenue that will be recognised by an entity that received advance considerations for goods and services not delivered will depend on the classification of a contract liability as monetary or non-monetary item. For example, if the contract liability was classified as a refund liability (paragraph 55 of IFRS 15) being a monetary item, the amount of revenue recognised would be determined based on the spot exchange rate when the performance obligation is fulfilled. However, and despite the term ’refund liability’, the nature of the liability recognised is not unambiguous. If the volume-based rebate was, in substance, considered a method of repayment, the refund liability would be considered a monetary item.

Further, application of the proposed guidance could lead to structuring opportunities for contracts with significant financing components. Consider two scenarios involving the same performance obligation but different financing arrangements, with the customer making an advance payment in scenario 1 and arranging for a separate financing transaction in scenario 2. As illustrated in the example 29 of IFRS 15 (paragraphs IE148-151), the first scenario would not foresee a bifurcation into the “core” performance obligation and a financing liability, whereas the second scenario would. Whilst we acknowledge that the differences in treatment exist with or without the consensus of the Draft Interpretation (and would lead to differences in presentation if the transactions were denominated in the functional currency of the entity), the issue is amplified if the transactions were denominated in a foreign currency. This is because under scenario 1, the one-transaction approach would lead to recognition of a contract liability, which is a non-monetary item per IAS 21 and would not be retranslated at the end of each reporting period, whereas under scenario 2, a financing liability would exist that would meet the definition of a monetary item and would, hence, be retranslated at every reporting date. Thus, economically similar transactions could lead to different presentation and measurement of revenue, depending on whether or not the financing transaction was baked into the performance obligation or was initiated separately.

Furthermore, the consensus reached in the Draft Interpretation will lead to an asymmetry as regards the recognition of the related asset, expense or income, depending on the payment pattern: In case of an advance consideration paid or received, the related asset, expense or income is recognised using the spot exchange rate at the date of the recognition of the prepayment asset or the deferred income liability, whilst in case of considerations paid or received in arrears, the date of the transaction for the related asset, expense or income is the date that the asset, expense or income is recognised in the financial statements. Furthermore, the proposed measurement of the prepayment asset or the deferred income liability from advance consideration will lead to including changes in the foreign currency exposure in the measurement base of the asset, expense or income after contract inception. Contract inceptions of the same date will therefore lead to different results, depending on payment terms (which cannot always be influenced by the entities).

Lastly, we question whether the IFRS Interpretations Committee considered the interaction of the proposed guidance with the hedge accounting requirements per IFRS 9 (or IAS 39, respectively), especially with respect to the potential impact of the Draft Interpretation on hedge documentations that are in place.

As something more editorial in nature, we note that for the translation of revenue in example 4 (para. IE15 - IE17), the First-In-First-Out (FIFO) method is applied: In that example, it is assumed that the advanced payment is allocated to the first product, therefore the spot exchange rate at the date of the first payment received is used for the translation of the first part of the revenue. For the purpose of example 4 this treatment is appropriate. However, it could be misunderstood in the sense that using the FIFO method is mandatory in circumstances in which multiple payments for multiple goods or services are received at multiple points in time. Therefore, we recommend clarifying in the final Interpretation that this is not the case. We believe that, for transactions that are recognised at multiple points in time, the foreign currency translation for each part of the revenue should be based on the respective contractual agreement, e.g. it may be stipulated in the contractual agreement that particular advance payments are related to a particular service performance. If there are no contractual arrangements, a simplification can be applied, which may but need not necessarily be the FIFO method. We suggest the IFRS Interpretations Committee clarify this point before finalising the interpretation.

**Question 3—Transition**

On initial application, entities would apply the draft 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 [draft] Interpretation initially recognised on or after:

  (i) the beginning of the reporting period in which an entity first applies the draft 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 draft Interpretation.

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

We agree with the proposed transition requirements.

As regards the effective date, we recommend considering aligning the Draft Interpretation with the effective date of IFRS 15 (i.e. for annual reporting periods beginning on or after 1 January 2018), with earlier application permitted. Since the proposed Interpretation interacts with various aspects of IFRS 15, we believe that choosing a uniform effective date for both, IFRS 15 and the Interpretation, would minimise any implementation costs, as any necessary IT changes could be effected at the same point in time (especially for those entities that have applied a different reading of IAS 21’s principle).