STAFF PAPER

June 2015

IASB Meeting

Project	**Draft Interpretation of IAS 21 *The Effects of Changes in Foreign Exchange Rates*–Foreign Currency Transactions and Advance Consideration**
Paper topic	Summary of due process followed and technical matters agreed by the IFRS Interpretations Committee

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Purpose of this paper

1. The IFRS Interpretations Committee ('the Interpretations Committee') received a submission asking how to determine which exchange rate to use when reporting revenue transactions denominated in a foreign currency in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. In particular, the submission described a circumstance in which the customer paid for the goods or services in advance.

2. The Interpretations Committee observed that their outreach indicated that:
   (a) the issue affects a number of jurisdictions, particularly in the construction industry;
   (b) there is diversity in practice between recognising revenue using the spot exchange rate at the date of the receipt of the non-refundable advance payment and the spot exchange rate at the date of the transfer of goods or services; and
   (c) the diversity is expected to continue after the implementation of IFRS 15 *Revenue from Contracts with Customers*.

3. In response to the noted diversity in practice, the Interpretations Committee decided to develop an Interpretation of IAS 21, after considering the

Interpretations Committee's agenda criteria described in paragraphs 5.14-5.22 of the *Due Process Handbook*.

4. At its March 2015 meeting, the Interpretations Committee reached general agreement on the technical matters to publish a draft Interpretation. The Interpretations Committee reaffirmed its general agreement at its May 2015 meeting. The draft Interpretation is about which exchange rate to use when reporting foreign currency transactions in circumstances in which there is advance consideration.

5. In accordance with paragraph 7.7 of the *Due Process Handbook*, we present this agenda paper to the IASB to:

   (a) provide the IASB with a summary of the Interpretations Committee's general agreement;

   (b) ask the IASB to confirm that it is satisfied that all due process requirements to date have been complied with; and

   (c) recommend a comment period of no less than 90 days for the draft Interpretation.

The issue

6. Paragraphs 21–22 of IAS 21 require that a foreign currency transaction should be recorded, on initial recognition in the functional currency, by applying the spot exchange rate at the date of the transaction. The date of the transaction is the date on which the transaction first qualifies for recognition in accordance with International Financial Reporting Standards (IFRS).

7. In circumstances in which an entity pays or receives some or all of the foreign currency consideration (or has an unconditional right to foreign currency consideration for which payment falls due, if earlier) in advance of the recognition of the related asset, expense or income, the entity generally recognises a non-monetary asset or liability. This non-monetary asset represents an entity's right to receive goods or services (a 'prepayment asset') and the non-monetary

liability represents an entity's obligation to transfer goods or services (a 'deferred income liability').[1]

8. The draft Interpretation addresses how to determine the date of the transaction and thus the spot exchange rate used to translate the (part of the) asset, expense or income on initial recognition that relates to the recognition of a non-monetary prepayment asset or a non-monetary deferred income liability.

Summary of the Interpretations Committee's general agreement[2]

Overview

9. The Interpretations Committee initially considered a revenue transaction denominated in a foreign currency in which the customer paid for the goods or services by making a non-refundable payment in advance. The Interpretations Committee concluded that paragraphs 21-22 of IAS 21 are not entirely clear on whether the revenue should be recognised using the exchange rate at the date of the advance payment or the date of the recognition of the revenue.

10. The Interpretations Committee decided that the proposed draft Interpretation should not be restricted to revenue transactions, but should also apply to other foreign currency transactions that are similarly affected by the issue.

11. The Interpretations Committee proposes that the date of the transaction, for the purposes of determining the spot exchange rate used to translate a foreign currency asset, expense or income on initial recognition, should be the earlier of:

    (a) the date of initial recognition of the non-monetary prepayment asset or the non-monetary deferred income liability; and

[1] IFRS 15 uses the terminology 'contract liability' instead of 'deferred income liability'.

[2] For further details of the past discussions and meetings, see our project page: http://www.ifrs.org/Current-Projects/IASB-Projects/date-of-transaction-identifying-applicable-exchange-rate-revenue-recognition/Pages/default.aspx

(b) the date that the related asset, expense or income (or part of it) is recognised in the financial statements.

12. In reaching general agreement, the Interpretations Committee considered the following matters:

(a) interaction with other Standards;

(b) scope of the draft Interpretation;

(c) what is the ‘date of the transaction’?;

(d) transactions with multiple payments for multiple goods or services recognised over time;

(e) interaction with the presentation of exchange differences in profit or loss; and

(f) transition arrangements, including for first-time adopters of IFRS.

13. These matters are discussed below.

Interaction with other Standards

14. The Interpretations Committee noted that the principle in paragraph 24 of IAS 21 implies that the measurement requirements of other Standards are applied to the foreign currency amounts and, separately, that those amounts are translated into the entity’s functional currency in accordance with IAS 21. Consistently with this, other Standards, including IFRS 13 *Fair Value Measurement*, do not contain any explicit guidance in respect of the foreign exchange aspects of transactions or measurement.

15. The Interpretations Committee noted that IAS 21 refers to other Standards. To determine the date of the transaction, paragraph 22 of IAS 21 specifically requires an entity to refer to the recognition requirements of other Standards. Similarly, the exchange rate to use at the end of each subsequent reporting period for a non-monetary item depends upon the measurement basis (historical cost or fair value) of the carrying amount, as required by other Standards. However, having determined the date of initial recognition and the measurement basis in

accordance with other Standards, IAS 21 is applied to determine which exchange rate should be used to translate those foreign currency items into an entity's functional currency.

16. The Interpretations Committee thinks that this provides a basis for interpreting IAS 21, without needing to interpret the recognition or measurement requirements of other Standards.

17. In particular, the proposed Interpretation is not intended to be an interpretation of IFRS 15 *Revenue from Contracts with Customers.* However, because the issue addressed by the draft Interpretation arose in respect of revenue transactions and because IFRS 15 is a new Standard, questions naturally arose during the development of the draft Interpretation about how the proposed Interpretation would interact with various aspects of IFRS 15. The Interpretations Committee analysed these questions to ensure that there is no fatal flaw with the proposed Interpretation. A summary of this analysis is given in Appendix B.[3]

18. In addition, in developing the proposed interpretation of IAS 21, the Interpretations Committee reviewed the requirements of other Standards to see whether they might offer a guide as to the most appropriate interpretation of the 'date of the transaction' and to ensure that any interpretation is not inconsistent with the requirements in other Standards.[4]

Scope

19. The Interpretations Committee decided that the draft Interpretation should apply to a foreign currency transaction in circumstances in which:

    (a) there is consideration that is denominated or priced in a foreign currency;

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[3] See Agenda Paper 2 for the IFRS Interpretations Committee meeting in March 2015 and Agenda Paper 14 of the IFRS Interpretations Committee meeting in November 2014 for a full analysis.

[4] See Agenda Paper 5 for the IFRS Interpretations Committee meeting in January 2015 for this analysis.

(b) the entity recognises a prepayment asset or a deferred income liability, in advance of the recognition of the related asset, expense or income (or part of it), in accordance with IFRS;

(c) the prepayment asset or deferred income liability is non-monetary.

20. However, the draft Interpretation should not apply in circumstances in which the foreign currency amount of the non-monetary prepayment asset or non-monetary deferred income liability is required to be subsequently remeasured for the purposes of the initial recognition of the related asset, expense or income (or part of it).

21. These decisions are discussed further in the following sub-sections of this paper.

Foreign currency transactions other than revenue from contracts with customers

22. The issue was raised within the context of foreign currency revenue transactions. However, as an interpretation of IAS 21, the Interpretations Committee decided that the draft Interpretation should not be restricted to revenue transactions, but should also apply to the initial recognition of other foreign currency transactions that are similarly affected by the issue. This is because IAS 21 applies to all foreign currency transactions.

23. The Interpretations Committee noted that similar considerations arise when consideration denominated or priced in a foreign currency is paid or received in advance in respect of other transactions. For example:

(a) purchases and sales of property, plant and equipment;

(b) purchases and sales of intangible assets;

(c) purchases and sales of investment property;

(d) purchases of inventory;

(e) purchases of services;

(f) entering into lease contracts;

(g) on the receipt of some government grants; and

(h) prepayments of fees.

24. Although similar circumstances could arise in respect of insurance contracts and income taxes, the Interpretations Committee decided that the draft Interpretation need not apply to such transactions. This is to avoid any unintended consequences because:

(a) the foreign exchange implications of insurance contracts are being addressed as part of the International Accounting Standards Board's (IASB) project on Insurance Contracts; and

(b) of complexities in respect of income taxes, because of the interplay with deferred tax.

Non-cash consideration

25. Advance consideration may be denominated or priced in a foreign currency, but in a form other than cash. For example, an entity may receive equity shares, or an item of inventory that is priced in a foreign currency, in exchange for the provision of services.

26. The Interpretations Committee noted that IAS 21 applies to both cash and non-cash foreign currency transactions. In particular, the requirements for determining the date of the transaction for the purposes of determining the exchange rate to apply on initial recognition of foreign currency transactions in paragraphs 21 and 22 of IAS 21 do not distinguish between cash and non-cash transactions. The Interpretations Committee concluded that the draft Interpretation should apply to foreign currency transactions with cash and/or non-cash consideration that is denominated or priced in a foreign currency.

Transactions measured at a fair value on initial recognition

27. The principles in paragraph 23(c) of IAS 21 require that when a non-monetary item is measured at fair value and fair value is determined in a foreign currency, the foreign currency amount is translated using the spot exchange rate at that measurement date. Consequently, the Interpretations Committee observed that if, after the initial recognition of a non-monetary prepayment asset or a non-monetary deferred income liability, that amount is required to be remeasured

to reflect fair value in a foreign currency on the initial recognition of the related asset, expense or income (or part of it), the draft Interpretation would no longer be applicable.

28. The Interpretations Committee identified two circumstances in which this occurs:

(a) the asset, expense or income is measured at its fair value on initial recognition instead of at cost;

(b) the asset, expense or income is initially recognised at cost or the transaction price, but it is measured initially:

(i) at its fair value as opposed to the fair value of the consideration paid or received (eg when goods or services are received in an equity-settled share-based payment purchases, provided that fair value can be estimated reliably; purchases of property, plant and equipment exchanged for non-monetary asset(s), if the fair value of the property, plant or equipment received is more clearly evident than the fair value of the asset given up); or

(ii) using the fair value of the consideration (eg non-cash consideration included in revenue in accordance with IFRS 15 (provided it can be reliably measured); determining the amount of consideration in the calculation of goodwill in accordance with IFRS 3; and purchases of property, plant and equipment exchanged for a non-monetary asset (unless the fair value of the asset received is more clearly evident)).

29. The Interpretations Committee observed that the draft Interpretation should not apply in the first case identified in paragraph 28(a), ie when the asset, expense or income is measured at its fair value on initial recognition instead of cost. For example, paragraph 18 of IFRS 3 requires that most identifiable assets and liabilities are recognised using the fair value at acquisition date and IFRS 9 *Financial Instruments* requires financial assets and financial liabilities to be initially recognised at their fair value. The Interpretations Committee also observed that because a financial instrument (and other transactions within the scope of IFRS 9 *Financial Instruments*) is generally initially recognised at the

date the entity becomes a party to the contractual provisions of the instrument, the same issue does not arise in respect of such instruments.

30. The Interpretations Committee observed that the second scenario, outlined in paragraph 28(b) often arises in circumstances in which the transaction involves non-cash consideration. There are two possibilities:

    (a) the consideration (or asset, income or expense) is measured at fair value in the foreign currency at the date that the prepayment asset or deferred income liability is recognised. This becomes the cost or transaction price (or part of it) and that foreign currency amount is not subsequently remeasured to fair value on initial recognition of the related asset, expense or income; or

    (b) on initial recognition of the asset, expense or income, the consideration (or the asset, expense or income) is measured at fair value in a foreign currency for inclusion in the cost or the transaction price at a measurement date other than the date of initial recognition of the related prepayment asset or deferred income liability.

31. In the first scenario in paragraph 30(a), the Interpretations Committee concluded that the draft Interpretation should apply, because after the prepayment asset or the deferred income liability is initially recognised, that underlying foreign currency amount is included unchanged in the initial measurement of the related asset, expense or income.

32. However in the second scenario in paragraph 30(b), the draft Interpretation would not apply. This is because the date of measurement of the fair value of the item would determine the date of the exchange rate to use to translate the asset, expense or income on initial recognition, in accordance with the principle in paragraph 23(c) of IAS 21. For example, goodwill is initially measured, in accordance with IFRS 3, by reference to the acquisition-date fair value of the consideration.

33. Accordingly, the Interpretations Committee concluded that the draft Interpretation does not apply in circumstances in which the foreign currency amount of the non-monetary prepayment asset or the non-monetary deferred income liability is

subsequently required to be remeasured for the purposes of the initial recognition of the related asset, expense or income (or part of it).

Monetary items

34. An advance receipt or payment of consideration typically gives rise to a non-monetary deferred income liability or prepayment asset. This is consistent with paragraph 16 of IAS 21, which states that amounts prepaid for goods or services (eg prepaid rent) are an example of a non-monetary item.

35. However, the terms of the transaction could be such that the advance consideration gives rise to a deferred income liability or prepayment asset that is a monetary item instead of a non-monetary item.[5] [6]

36. When the advance consideration gives rise to a monetary item, paragraphs 28–29 of IAS 21 require that an exchange difference is recognised in profit or loss when there is a change in the exchange rate between the transaction date and the date of settlement of that asset or liability. Consequently, the issue about which exchange rate to use only arises when the advance consideration gives rise to the recognition of a non-monetary prepayment asset or of a non-monetary deferred income liability. Accordingly, the Interpretations Committee decided that the draft Interpretation should only deal with circumstances in which the advance consideration denominated or priced in a foreign currency gives rise to the recognition of a non-monetary item.

What is the 'date of the transaction'?

37. Paragraph 22 of IAS 21 defines the date of the transaction for determining which exchange rate to use on the initial recognition of a foreign currency transaction as:

[5] Paragraph 8 of IAS 21 defines monetary items as units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

[6] The determination of whether a prepayment asset or deferred income liability gives rise to a monetary or non-monetary item depends upon the specific facts and circumstances and may be a matter of judgement. However, because this is a separate issue the Interpretations Committee does not intend to give guidance on determining what is a monetary or non-monetary item within the draft Interpretation.

'the date that the transaction first qualifies for recognition in accordance with IFRSs'.

38. The Interpretations Committee concluded that for a transaction to 'qualify for recognition in accordance with IFRSs', the transaction must be recorded in the financial statements with a value. The Interpretations Committee observed that paragraph 4.46 of *The Conceptual Framework for Financial Reporting* notes that 'in practice, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not yet received) are generally not recognised as liabilities in the financial statements'. Accordingly, the date of the transaction would not, as a principle, be the date of the contract inception.

39. The Interpretations Committee observed that there could be two ways of identifying 'the transaction' for the purposes of determining which exchange rate to use:

   (a) a 'one-transaction' approach: entering into a contract, the receipt or payment of consideration and transferring the goods or services are all part of the same transaction. Thus, the date of the transaction is determined by the date on which the first element of the transaction qualifies for recognition in accordance with IFRS. For transactions with advance consideration, this would generally be the date of receipt or payment of the advance consideration.

   (b) a 'multi-transaction' approach: entering into a contract, the receipt or payment of consideration and transferring the goods or services are separate transactions, each of which will have its own date of the transaction when it first qualifies for recognition in accordance with IFRS. Accordingly, the date of the transaction of the asset, expense or income would be the date of initial recognition of that item.

40. The Interpretations Committee concluded 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 deferred income liability because:

(a) it reflects that an entity is no longer exposed to foreign exchange risk in respect of the transaction once it has received or paid any advance consideration (ie after receipt, the entity can control whether or not to continue to hold the foreign currency consideration and be exposed to foreign exchange risk; and after an advance payment of foreign currency consideration, the entity is no longer exposed to foreign currency risk in respect of that purchase);

(b) the obligation to perform, reflected in the recognition of a deferred income liability, and the subsequent fulfilment of that obligation (which gives rise to income) are interdependent and are part of the same transaction;

(c) similarly, the right to future assets, goods or services, reflected in the recognition of a prepayment asset, and the subsequent fulfilment of those rights (which gives rise to the recognition of the asset or expense to which the prepayment relates) are inherently interdependent; and

(d) it is consistent with the treatment of deferred income liabilities and prepayment assets as non-monetary items because such items are not subsequently retranslated in accordance with IAS 21.

41. The Interpretations Committee also noted that paragraphs 105-106 of IFRS 15 require that if a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (ie a receivable), before the entity transfers a good or service to the customer, the entity shall account for the transaction as a contract liability (ie a deferred income liability) when the payment is made or due (whichever is earlier).[7] [8]

42. Hence in the specific circumstances in which an entity has not yet transferred goods or services to the customer, but has an unconditional right to consideration

[7] We note that paragraph BC325 of IFRS 15 notes that 'the act of invoicing the customer for payment does not indicate whether the entity has an unconditional right to consideration'.

[8] A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity may enter into a non-cancellable contract that requires the customer to pay the consideration a month before the entity provides goods or services. In that case, on the date that the payment is due, the entity has an unconditional right to consideration.

and payment of that consideration has not been received when due, the entity would recognise:

(a) a contract liability, until the goods or services are transferred; and

(b) a receivable, until the consideration is received.

43. Consequently, the Interpretations Committee concluded that the earliest date on which the first element of the transaction is recognised in the financial statements with a value determines the date of the transaction, in accordance with paragraph 22 of IAS 21. If an entity recognises a non-monetary prepayment asset or a non-monetary deferred income liability, which will generally be on the payment or receipt of advance consideration (or when an unconditional payment is due), the date of recognition of that prepayment asset or deferred income liability is the date of the transaction. However, if an entity does not recognise a prepayment asset or a deferred income liability because, for example, payment is in arrears, the date of the transaction is the date that the asset, expense or income is initially recognised.

Multiple payments for multiple goods or services recognised over time

44. The Interpretations Committee observed that if only part of the consideration is received or paid in advance, only part of the transaction has initially been recognised as a non-monetary prepayment asset or a non-monetary deferred income liability. Hence, the date of the transaction has been determined only for that part of the related asset, expense or income. If the remainder of the consideration is paid in arrears, the date of the transaction for the remaining part of the related asset, expense or income will be the date(s) on which that part(s) of the asset, expense or income is recognised in the financial statements. Consequently, the part of the related asset, expense or income that is recognised on fulfilment of the non-monetary prepayment asset or settlement of the non-monetary deferred income liability will be translated on initial recognition into the entity's functional currency using the spot exchange rate at the date of recognition of the prepayment asset or deferred income liability. The remaining part(s) of the asset, expense or income would be translated on initial recognition using the spot exchange rate at the date that part is recognised.

45. The Interpretations Committee thinks that this treatment reflects that an entity has no exchange risk in respect of the foreign currency amounts already paid or received, but is still exposed to exchange risk in respect of the outstanding consideration. This treatment is also consistent with using the spot exchange rate at the date of recognition of the asset, expense or income when the payment or receipt of all the consideration is in arrears and the transaction is recognised over time, as the goods or services are transferred.

46. Consequently, the Interpretations Committee concluded that if the transaction is initially recognised in stages, the date of the transaction is also determined in stages.

47. For transactions that are recognised as assets, expenses or income at multiple points in time, or over time, it is necessary to determine which part of the asset, expense or income should be translated on initial recognition using the spot exchange rate on the date of recognition of the prepayment asset or deferred income liability. The Interpretations Committee noted that the prepayment asset or the deferred income liability is derecognised when the related (part of the) asset, expense or income is recognised, reflecting when the rights or obligations associated with the prepayment asset or deferred income liability are fulfilled. This pattern of derecognition and recognition determines the part of the related assets, income or expenses that is translated using the spot exchange rate on the date of the initial recognition of the non-monetary prepayment asset or non-monetary deferred income liability. This pattern is determined by the relevant IFRSs, and is not affected by the denomination of the transaction in a foreign currency.

Interaction with the presentation of exchange differences in profit or loss

48. During the development of the draft Interpretation, a concern was raised about the interaction of the proposed Interpretation and the presentation in profit or loss of exchange differences arising on related trade receivable and trade payable balances.

49. Paragraphs 28-29 of IAS 21 require that exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period should be recognised in profit or loss in the period in which they arise, subject to a few specified exceptions. The Interpretations Committee noted that IFRS does not specify in which line item within profit or loss such exchange differences should be presented.

50. One member of the Interpretations Committee has voted against the proposals in the draft Interpretation. That member's concern is that, in the absence of any explicit statement to the contrary in the Basis for Conclusions, the draft Interpretation implies that exchange differences on trade receivables or trade payables should not be recognised in the same line item within profit or loss as the foreign currency transaction. This is because the draft Interpretation specifies the exchange rate to use on the recognition of a foreign currency transaction that is recognised in profit or loss.

51. The Interpretations Committee noted that in developing the draft Interpretation it did not intend to address exchange differences arising on the subsequent retranslation of monetary items, nor did it intend to address in which line item such exchange differences should be recognised.

52. The Interpretations Committee tentatively decided not to include in the Basis for Conclusions of the draft Interpretation a discussion about the presentation of exchange differences arising on the settlement or retranslation of monetary items. Their reasoning was that it is not relevant to the issue being addressed by the proposed Interpretation, which is the meaning of the 'date of the transaction' for the purposes of the initial recognition of a foreign currency transaction in the functional currency in accordance with paragraph 21 of IAS 21. The presentation of foreign exchange gains and losses arising subsequent to the date of the transaction is not relevant to the date of the measurement of the foreign currency transaction in the functional currency on initial recognition.

53. After discussing the issue, the Interpretations Committee reaffirmed its general agreement that the staff should prepare the draft Interpretation for a written ballot, subject to no significant matters arising from discussions at the IASB. One

member voted against the proposal because of this concern. The Interpretations Committee noted that, in accordance with the IFRS Foundation's *Due Process Handbook*, the Basis for Conclusions of the draft Interpretation must identify any areas in which some members of the Interpretations Committee hold strong views in opposition to the draft Interpretation. The Basis for Conclusions for the draft Interpretation will include the required information.

Transition

54. The Interpretations Committee observed that full retrospective application on transition to the proposed Interpretation, in particular for foreign currency transactions involving purchases of assets, may be burdensome because of the potential volume and/or time scale of transactions involved. Furthermore, entities may not have sufficient information to make a reliable restatement. Consequently, the Interpretations Committee decided that, on initial application, entities should have the option of relief from retrospectively restating assets, expenses and income (or parts of them) that were recognised before either the start of the current reporting period or the start of a prior reporting period that is presented in the first reporting period of application.

First-time adopters

55. The Interpretations Committee noted that if there are significant implications of the draft Interpretation for first-time adopters of IFRS, IFRS 1 *First-time Adoption of International Financial Reporting Standards* already contains an election to measure an item of property, plant and equipment, investment property or intangible assets at fair value and uses that fair value as its deemed cost.

56. The Interpretations Committee also observed that specific transition requirements in respect of the proposed Interpretation are not needed for transactions recognised in the income statement. This is because we expect that the consequence of applying the proposed Interpretation to the IFRS amounts will not affect the net profit or loss for a period, as the draft Interpretation does not affect the recognition and measurement of the underlying foreign currency amounts. Thus we expect that it will not affect net profit or loss for periods prior to the

comparative financial periods presented in the first IFRS financial statements. It will also not affect the reconciliation of equity reported in accordance with a first-time adopter's previous GAAP to the equity reported in accordance with IFRS at the beginning of the earliest period for which the first-time adopter presents full comparative information under IFRS.

57. Consequently, the Interpretations Committee decided that no specific requirements or exemptions are needed for first-time adopters in respect of the draft Interpretation.

Comment period

58. We suggest that the comment period for this draft Interpretation should be no less than 90 days, which is the normal comment period in accordance with paragraph 7.11 of the *Due Process Handbook*.

Due process steps

59. In Appendix A, we have summarised the due process steps we have taken and that we will take in developing and publishing the draft Interpretation.

60. We note that the required due process steps have been or will be completed, as presented in Appendix A.

Proposed timetable for balloting and publication of the draft Interpretation

61. We expect that the balloting process will start in the third quarter of 2015 and publication will follow in the fourth quarter of 2015.

Next steps

62. Subject to the IASB's responses to the questions below:

    (a) the Interpretations Committee members will be asked to ballot the draft Interpretation; and

(b) the IASB members will be asked if they object to the release of the draft Interpretation.

63. Provided at least 10 Interpretations Committee members vote in favour of the draft Interpretation and no more than 3 IASB members object, the draft Interpretation will be published for public comment.

Questions to the IASB
1. Do any IASB members intend to object to the release of the draft Interpretation during the future balloting process? 2. Is the IASB satisfied with the due process steps required to date that relate to development and publication of the draft Interpretation? 3. Does the IASB agree with a comment period of no less than 90 days (ie a normal period for a draft Interpretation) for the proposed amendments? 4. Do the staff have permission to ballot the draft Interpretation?

Appendix A: Confirmation of due process steps in the development and publication of a draft Interpretation

The following table sets out the due process steps followed by the IASB and the Interpretations Committee:

Step	*Required/ Optional*	*Metrics or evidence*	*Actions*
The Interpretations Committee meetings are held in public, with papers being available for observers. All decisions are made in public session.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers have been posted in a timely fashion.	The issues were discussed on the basis of publicly available agenda papers at the IFRS Interpretations Committee meetings. We created and updated a project page for this project. The Interpretations Committee discussed the relevant issues at its November 2014 and January, March and May 2015 meetings. All results of the discussions of the Interpretations Committee were summarised in the IFRIC *Update* for the meetings.
Due process steps are reviewed by the IASB	Required	Summary of all due process steps have been discussed by the IASB before a draft Interpretation is issued.	Summary of all due process steps will be discussed at this June 2015 IASB meeting. A copy of this paper is being circulated to the Due Process Oversight Committee.
Draft Interpretation has an appropriate comment period.	Required	The IASB sets a comment period. If outside the normal comment period, an explanation has been provided by the Interpretations Committee to the DPOC, and approval is provided, if necessary.	We suggest 90 days, which is the normal period.
IASB members polled to identify any objections to releasing the draft Interpretation	Required	Poll undertaken.	IASB members will be asked whether they object to the release of the draft Interpretation during the balloting process, in accordance with paragraph 7.10 of the *Due Process Handbook*.
Drafting quality assurance steps are adequate.	Required	The Translations team have been included in the review process.	The Translation team will be asked to review the draft.

Step	Required/ Optional	Metrics or evidence	Actions
Drafting quality assurance steps are adequate.	Required	The Taxonomy team have been included in the review process.	The Taxonomy team will be asked to review the draft.
Drafting quality assurance steps are adequate.	Optional	The Editorial team has been included in the review process. In addition, external reviewers have been used to review drafts and the comments have been collected and considered by the Interpretations Committee.	The Editorial team will be asked to review the draft.
Drafting quality assurance steps are adequate.	Optional	Draft for editorial review is made available to members of the International Forum of Accounting Standard-Setters (IFASS) and the comments collected are considered by the Interpretations Committee.	Not done. Comments from IFASS members will be sought as part of public consultation.
Drafting quality assurance steps are adequate.	Optional	Draft for editorial review has been posted on the project website.	Not done. Comments will be sought as part of public consultation.
Draft Interpretation published.	Required	Draft Interpretation has been posted on the Interpretations Committee website.	Draft Interpretation will be posted on the website.
Press release to announce the publication of the draft Interpretation.	Required	Press release has been published. Media coverage of the release.	Press release will be published to announce publication.

Appendix B–Interaction with IFRS 15

B1. The Interpretations Committee considered the interaction of the proposed draft Interpretation with various aspects of IFRS 15 to ensure that there was no fatal flaw with the proposed Interpretation. This Appendix summarises the key matters considered by the Interpretations Committee in respect of the interaction with IFRS 15 during the development of the draft Interpretation.

B2. In doing so, the Interpretations Committee noted that:

(a) an entity first applies IFRS 15 to its revenue transactions to determine how the transaction is recognised and measured in the financial statements and subsequently applies IAS 21 to determine the exchange rate(s) to apply when translating any foreign currency amounts into the entity's functional currency; and

(b) the proposed draft Interpretation is an interpretation of the requirements in IAS 21, not of those in IFRS 15.

B3. The key analysis in respect of the following areas is summarised below. This analysis does not form part of the proposed Interpretation.

(a) Measurement principles in IFRS 15

(b) Variable consideration

(c) Non-cash consideration

(d) Significant financing components.

B4. In addition, the consideration of the requirements in IFRS 15 about the unconditional right to consideration in advance of the recognition of revenue is discussed in paragraphs 41–42 of this agenda paper.

Measurement principles in IFRS 15

B5. The Interpretations Committee observed that IFRS 15 does not explicitly discuss the foreign currency aspects of contracts with customers. This is because IAS 21 is the more specific Standard for accounting for the foreign currency effects of transactions. For contracts in which payment is in advance, the

Interpretations Committee noted that IFRS 15 does not provide definitive guidance about whether revenue denominated in a foreign currency should be measured at either the spot rate at the date of the advance payment or at the spot rate at the date of recognition of revenue.

B6. Paragraph 47 of IFRS 15 defines the transaction price as the 'amount of consideration to which an entity expects to be entitled in exchange for transferring the promised goods or services to a customer'. In terms of functional currency, the amount that the entity 'expects to be entitled' under the terms of the contract could be considered to be the foreign currency amount at the spot amount at the date of receipt of payment. For payments in advance, the amount of consideration in the functional currency is known by the time the revenue is recognised–it is the spot rate at the date of the prepayment.

B7. However, IFRS 15 treats payments in advance or arrears that have a significant financing component as being similar to a fixed-rate loan. Paragraph 61 of IFRS-15 states that

> 'the objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (ie the cash selling price)'.

B8. Applying the objective in paragraph 61 of IFRS 15 to a contract that is denominated in a foreign currency implies that revenue should be recognised using the spot rate at the date the goods or services are transferred to the customer. This is as if the customer had paid the foreign currency cash at that date. The Interpretations Committee noted that the logical extension of treating the advance payment as a foreign currency financing component would be to translate the contract liability to recognise foreign exchange gains and losses over the period of the 'foreign currency-denominated loan'. However, this is not required by IFRS 15 and would be inconsistent with treating the contract liability as a non-monetary item in accordance with IAS 21.

B9. The Interpretations Committee also noted the optional practical expedient in paragraph 63 of IFRS 15 not to accrue interest, or recognise it as part of revenue, when payment is within a year of performance.

B10. The Interpretations Committee concluded that for contracts in which payment is in advance, IFRS 15 could be read as indicating that IAS 21 should be interpreted in such a way that revenue should be measured at either the spot rate at the date of the advance payment or at the spot rate at the date of recognition of the revenue.

Variable consideration

B11. The Interpretations Committee observed that the variable consideration requirements in IFRS 15 do not apply to variability in value that is only due to movements in foreign exchange rates (for example when the consideration is a fixed amount of foreign currency). This is because variability in the value of the transaction price in a foreign currency due to exchange rates is not ‘similar’ to the types of variability listed in paragraph 51 of IFRS 15 (ie ‘discounts, rebates, refunds, credits, price concessions, incentives, deferred income bonuses, penalties or other similar items’ or ‘if the entity’s entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event’). Furthermore, in respect of non-cash consideration, paragraph 68 of IFRS 15 emphasises that the variable consideration requirements in IFRS 15 do not apply to variability that is only due to the form of the consideration–such as variability due to share price movements in respect of shares.

Non-cash consideration

B12. Paragraph 66 of IFRS 15 requires that an entity should measure non-cash consideration (or the promise of non-cash consideration) at fair value. However, IFRS 15 does not explicitly specify the date of measurement of the fair value of the non-cash consideration. The issue about which date should be used to measure the fair value of non-cash consideration was discussed at the Transition

Resource Group for Revenue's (TRG's) meeting in January 2015 and subsequently by the FASB and IASB at a joint Board meeting in March 2015.

B13. The TRG considered three alternative views:

(a) View A: the fair value of non-cash consideration is measured at contract inception.

(b) View B: the fair value of non-cash consideration is measured when the non-cash consideration is received or receivable (ie the entity has an unconditional right to consideration).

(c) View C: the fair value of non-cash consideration is measured at the earlier of:

(i) the date that the non-cash consideration is received or receivable; and

(ii) the date that the related deferred income obligation is satisfied (or as the deferred income obligation is satisfied, if satisfied over time).

B14. Discussion at the TRG meeting highlighted that the guidance in IFRS 15 is not clear in respect of this specific issue. Preferences expressed by the TRG members were split across all three views.

B15. The FASB decided to clarify the guidance in its new revenue Standard to require that non-cash consideration is measured at fair value at contract inception (ie View A). However, the IASB decided not to make any amendments to the requirements for non-cash consideration in IFRS 15 or the accompanying Illustrative Examples. The IASB noted that the approach required by the FASB's amendment, if finalised, would not be the only acceptable interpretation of IFRS 15.

B16. The requirements of IFRS 15 for non-cash consideration do not apply to foreign currency cash consideration. However, foreign currency cash has some features that are similar to non-cash consideration, in that its fair value may vary (from the perspective of an entity's functional currency) because of the form of the consideration—in this case due to movements in foreign exchange rates.

Accordingly, the Interpretations Committee considered whether there could be consistency between the approach to determine the date of the foreign exchange rate for translating foreign currency consideration and the approach to determine the date of measurement of the fair value of non-cash consideration for inclusion in revenue.

B17. However, the Interpretations Committee noted that the requirements in IAS 21 are not entirely consistent with the principles in IFRS 15 or with any of the alternatives considered above, regardless of the approach taken in the proposed Interpretation. This is because, in accordance with IAS 21, the exchange rate used to translate a foreign currency transaction on initial recognition is the date that the transaction is *first recognised* in the financial statements.

B18. The Interpretations Committee observed that in accordance with IFRS 15, the transaction (or each part of it) is first recognised in the financial statements, for the purposes of applying IAS 21, on the earlier of the following four events:

(a) when payment is due in respect of an unconditional right to consideration, at which date the entity recognises a receivable and a corresponding contract liability;

(b) on receipt of the consideration, at which date the entity recognises the consideration as an asset and a corresponding contract liability;

(c) on the transfer of the goods or services (ie on performance), provided that there is no constraint on variable consideration, at which date the entity recognises the revenue and a corresponding contract asset (if the right to consideration is not unconditional) or a receivable (if the right to consideration is unconditional); or

(d) the date at which the entity reassesses its estimate of variable consideration and determines that it can recognise additional amounts of revenue subsequent to the date of the transfer of goods and services (eg because the constraint on variable consideration no longer applies). In such circumstances the entity recognises the additional revenue at that date and a corresponding contract asset or receivable.

B19. The Interpretations Committee observed that none of Views A, B or C would align with the date of first recognition of the transaction in all the circumstances summarised above.

B20. However, in circumstances in which a non-monetary contract liability is recognised before the recognition of the related revenue, the Interpretations Committee's conclusions as proposed in the draft Interpretation are consistent with both View B and View C, but not with View A, in respect of the measurement date for non-cash consideration.

B21. If non-monetary non-cash consideration is priced in a foreign currency, the non-cash consideration would be translated using the exchange rate at the date the fair value was measured in accordance with paragraph 23(c) of IAS 21. As noted in paragraphs 20 and 27-33 of this paper, the proposed Interpretation would not apply if this date was not the date that the contract liability is initially recognised. Thus the Interpretations Committee concluded that the proposed Interpretation would not, in any event, conflict with the application of the non-cash consideration requirements in IFRS 15.

Significant financing components

B22. Paragraphs 60-65 of IFRS 15 require that if there is a significant financing component, the entity should adjust the consideration to reflect the time value of money in determining the transaction price. However, as a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects that the period between when the entity transfers a promised good or service to a customer, and when the customer pays for that good or service, will be one year or less.

B23. Paragraph 64 of IFRS 15 states that an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when (or as) they transfer to the customer.

B24. The Interpretations Committee considered how the proposed Interpretation would apply to situations in which there was a significant financing component due to consideration being received in advance of the transfer of goods or services.

B25. IFRS 15 gives guidance about how to determine the amount of the accretion of the effects of the time value of money. If it was determined in the functional currency in respect of a non-monetary contract liability, then the proposed Interpretation would not be applicable. If, however, it was determined in a foreign currency, the date of the transaction for the accreted amounts would be the date(s) that they are recognised as part of the contract liability.

B26. For example, suppose an entity entered into a contract with a customer to sell goods for Foreign Currency (FC) 100 at the date of delivery in 14 months' time or FC90 receivable now. The customer pays the entity FC90 now and recognises a contract liability for FC90 translated into the functional currency using the exchange rate at that date. The entity determined that the difference of FC10 (between FC90 now and FC100 in 14 months' time) was a significant financing component. It therefore recognised the FC10 as interest expense in profit or loss and as a corresponding increase in the contract liability over the 14 months from the date of receipt of the consideration to the date of delivery of the goods. The FC10 would be translated using the exchange rates over the period from contract inception to the delivery of the goods. (In accordance with paragraph 22 of IAS 21, average exchange rates may be used if exchange rates do not fluctuate significantly.) Hence, applying the approach in the proposed Interpretation, on transfer of the goods, revenue is recognised for FC100, of which:

(a) FC90 is translated using the exchange rate at the date of initial recognition of the FC90 contract liability[9]; and

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[9] Using the exchange rate at the date of initial recognition of the contract liability for the advance consideration received is consistent with the treatment of other foreign currency transactions with advance consideration for which the time value of money is not taken into account. That is, it reflects that the entity is no longer exposed to foreign exchange risk in respect of the transaction after receiving the advance consideration.

(b) FC10 is translated using the exchange rates over the period of the significant financing.

B27. The Interpretations Committee decided not to address this explicitly in the proposed Interpretation or accompanying examples, because it is the expected consequence of applying IAS 21 and the proposed Interpretation.