Comment letters

IFRS Interpretation Committee
30 Cannon Street
London EC4M 6XH

United Kingdom

La Défense, January 19, 2016

RE: Draft IFRIC Interpretation DI/2015/2—Foreign Currency Transactions and Advance Consideration

Dear Sir or Madam,

Mazars welcomes the opportunity to comment on the draft IFRIC Interpretation Foreign Currency Transactions and Advance Consideration.

We agree with the view of the IFRS Interpretation Committee that translating a transaction denominated in a foreign currency using the spot rate of the down payment received or paid adequately reflects that an entity is no longer exposed to foreign exchange risk.

However, we are concerned that the costs of implementing this interpretation will outweigh its benefit for users of financial statements. It may be expensive and difficult to implement for many companies, since most ERP are set to convert by default every transaction using a single FX rate (spot rate or any proxy rate). It might have been easier to address most of the questions raised by providing clear guidance on the presentation of exchange differences within the income statement or including additional disclosure requirements.

We understand why the Board chose not to address the presentation of exchange differences within the income statement but we believe that relevant accounting principles for foreign exchange impacts cannot be fully achieved without additional guidance on this issue.

Our answers to the questions raised in the Exposure Draft are shown in the appendix to this letter which summarises our concerns and opinion.
Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Best regards,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
Appendix: Detailed answers to questions raised in the Exposure Draft Classification of Liabilities (Proposed amendments to IAS 21)

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 proposed in the Draft Interpretation.

However, we believe that the interpretation should provide additional guidance on the concept of monetary and non-monetary items.

In all illustrative examples, it is specified that the advance payment is “non-refundable” and the contract “non-cancellable”. As stated, this could be interpreted as an implicit criteria to meet the definition of a “non-monetary” element, but this is not explicitly addressed anywhere else (neither in the main text nor in the Basis for conclusions). Therefore, we suggest that the IFRS Interpretation Committee makes a clear reference to IFRS 15 or specifies in the Draft Interpretation what a "non-refundable advance" is and 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 is supposed to deliver goods or services.

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?

Yes, we conceptually agree with the consensus proposed since it appropriately reflects that an entity is no longer exposed to foreign exchange risk in respect of the transaction to the extent of any advance consideration received or paid.

However we would like to draw the two following points to the Board’s attention:
The principle of reflecting the remaining economic exposition to foreign exchange risk explained in Paragraph 25 of the Basis for Conclusions of the Draft Interpretation, is not applied consistently. Paragraph 27 of the Basis for conclusions of the Draft Interpretation observes that paragraph 106 of IFRS 15 requires that if an entity has a right to an amount of consideration in accordance with a contract with a customer that is unconditional, before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is due, if earlier than the date the payment is made. The same paragraph states that the earliest date on which the first element of the transaction is recognized with a value in the financial statements determines the date of the transaction, in accordance with paragraph 22 of IAS 21. Therefore, we understand that in this particular case, contract revenue should be recorded using the spot rate of the contract liability, that is to say the spot rate when the payment was due, which was earlier than the effective payment date. In this situation, we disagree with the Board’s proposal since it is not consistent with the above principle: the entity remains exposed to foreign exchange risk in respect of the transaction after the first element of the transaction occurred. Indeed the company is exposed to foreign exchange risk until the advance consideration is received.

We are concerned that the costs of implementing this interpretation will outweigh its benefit for users of financial statements.
We would like to emphasize that this Interpretation will be a real change for many companies. In our experience, most companies currently apply the multiple-transaction approach as by default, most ERPs are set to convert every transaction (down payment, invoice, payment) using a single FX rate (spot rate or at any proxy rate). Foreign exchange result is then automatically calculated by the ERP when a payment (or a down payment) is associated to a receivable/payable.
Therefore, this Interpretation will force companies to update their ERP and internal accounting process and may be expensive and difficult to implement. We understand that it is quite complicated for an ERP to record an invoice using multiple FX rates. This may be challenging for companies with large volumes of commercial transactions denominated in foreign currency. And we think the issue could have been solved by a mere decision on the presentation of the exchange rate differences within the statement of income.

We understand why the Board chose not to address the presentation of exchange differences within profit or loss. However, using the spot rate of the down payment instead of the spot rate of the related invoice to record the sale of goods or services only leads to classification impact between sales and foreign exchange result within the income statement. Therefore, if it remains unclear where foreign exchange result on commercial contracts shall be presented within the income statement, we are concerned that this Interpretation while helping to reduce diversity in practice (to the extent of down payment received or paid) will be of limited benefit to users of financial statements. Indeed, we believe that clear guidance on the presentation of exchange difference within the income statement or additional disclosure requirements could address most of the questions raised.
In order to illustrate the issue, we note that in some companies the FX result related to the same commercial sale operation may be presented in two different line items within the income statement:
   o FX result between the delivery date (invoice to be issued) and the invoice date: recorded in sales
   o FX result between the invoice date and the payment date: recorded in financial results (or sometimes in other operational income / expense)

**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 recognized 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 proposed transition requirements. Even though the complete retrospective application enhances comparability and consistency in financial statements, entities may not have sufficient information to restate transactions with multiple receipts or payments that were recognized over a period of time. Accordingly, the cost of retrospective application may outweigh the benefits to users. Therefore, we concur with the Board’s proposal to permit a prospective method for transition.

**Other comment**

IFRS 15 should be added to the references listed.