PITCHER PARTNERS
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Level 19
15 William Street
Melbourne
Victoria 3000

Postal Address:
GPO Box 5193
Melbourne Vic 3001
Australia

Level 1
80 Monash Drive
Dandenong South
Victoria 3175

Tel: +61 3 8610 5000
Fax: +61 3 8610 5999
partners@pitcher.com.au
www.pitcher.com.au

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Ref: KLB/dr

17 December 2015

Ms Kris Peach
Chairman
Australian Accounting Standards Board
Level 14, 530 Collins Street
Melbourne VIC 3000

Dear Ms Peach

SUBMISSION – FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION (DI/2015/2)

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on Draft IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration* (the Draft Interpretation).

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We welcome the development of authoritative guidance on accounting for advance receipts and payments of foreign currency consideration and we support the proposals outlined in the Draft Interpretation.

Our detailed responses to the questions contained in the Draft Interpretation are attached to this letter.

Please contact either myself or Darryn Rundell, Director - Audit & Accounting Technical (03 8610 5586 or darryn.rundell@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely

K L Byrne
Partner

D J Rundell
Director, Audit & Accounting Technical

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DI/2015/2 *Foreign Currency Transactions and Advance Consideration*

Specific matters for comment:

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?

Response:

We agree that authoritative guidance is necessary in relation to the meaning of 'the date of a transaction' in the context of accounting for advance receipts and payments of foreign currency consideration under IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

In our view, the scope of the Draft Interpretation appropriately captures those foreign currency transactions for which additional authoritative guidance is needed.

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?

Response:

We agree with the consensus proposed in the Draft Interpretation.

However, given that the distinction between 'monetary' and 'non-monetary' items is central to the scope and application of the Draft Interpretation, as a minimum we encourage the inclusion of, or reference to, the existing guidance contained in paragraph 16 of IAS 21 *The Effects of Changes in Foreign Exchange Rates.* It would also be opportune to reconsider the adequacy of this existing guidance and whether there is a need for additional guidance and/or illustrative examples to be included in the Draft 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?

Response:

We acknowledge that the initial application of the Draft Interpretation on a full retrospective basis (in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) may be a considerable burden to some preparers.

We therefore support the proposed transition requirements, which will provide entities with the option to apply the Draft Interpretation on either a retrospective or prospective basis.