



<b>Project:</b>	<b>Not-for-Profit Private Sector Financial Reporting Framework</b>	<b>Meeting:</b>	M213
<b>Topic:</b>	<b>Redeliberation on foreign currency translation</b>	<b>Agenda Item:</b>	5.4
		<b>Date:</b>	17 June 2025
<b>Contact(s):</b>	Maggie Man <a href="mailto:mman@asb.gov.au">mman@asb.gov.au</a> Jim Paul <a href="mailto:jpaul@asb.gov.au">jpaul@asb.gov.au</a> Evelyn Ling <a href="mailto:eling@asb.gov.au">eling@asb.gov.au</a>	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Project redeliberations

## Objective of this paper

- 1 The objective of this staff paper is for the Board to **decide** how to finalise the proposed requirements exposed in ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* regarding Section 26: *Foreign Currency Translation* of that ED.

## Background and reasons for bringing this paper to the Board

- 2 At the Board's March 2025 and May 2025 meetings (Meetings 211 and 212), the Board noted staff's preliminary and final collations of stakeholder feedback on ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*. In addition, in [Agenda Paper 4.2](#) for Meeting 212, staff set out its proposed approach to the Board's redeliberations of ED 335 for the Board's decisions, particularly a categorisation of the redeliberation effort in light of the stakeholder feedback received on the ED. With one exception, the Board agreed with the staff's proposed categorisation.
- 3 For this Board meeting (Meeting 213), this paper provides a staff analysis of stakeholder feedback received on Section 26: *Foreign Currency Translation* of ED 335, developed having regard to the collation of submissions in [Agenda Paper 4.3](#) for Meeting 212. The approach to developing this paper reflects the Board's agreement with the proposed categorisation of its subject matter as 'Category B' in [Agenda Paper 4.2](#) for Meeting 212 (i.e. it is unclear whether the Board's proposals in ED 335 will be finalised in the manner exposed).

## Summary of proposals in Section 26: *Foreign Currency Translation*

- 4 Section 26 of ED 335 proposed requiring any foreign currency amounts to be translated using the exchange rate on the date of the transaction and the exchange rate at the end of the reporting period for monetary asset and liability balances.
- 5 Section 26 of ED 335 should be read in the context of para. 2.25(d) of that ED, which specifies that an entity shall display "that the amounts in the financial statements are presented in Australian dollars".
- 6 The Board's rationale for its proposals in the ED is consistent with its preliminary views in the [Discussion Paper](#), which received overall stakeholder support to be consistent with the New

Zealand Tier 3 Standard, except for changing the reference to domestic currency amounts from New Zealand dollars to Australian dollars. When drafting Section 26, Board members disagreed with a staff suggestion to include brief general guidance on foreign currency translation in the Tier 3 Standard, such as the effects of changes in exchange rates on monetary asset and liability balances being recorded in profit or loss. The Board considered that the guidance would extend the length of the Tier 3 Standard, that foreign currency transactions and balances would be uncommon for smaller NFP entities, and therefore that adding guidance would not be proportionate.

### **Overview of stakeholder feedback received on Specific Matter for Comment 35**

- 7 Specific Matter for Comment 35 (SMC 35) asked whether stakeholders agree with the proposed Tier 3 reporting requirements in Section 26 (i.e. paragraph 26.1) of ED 335. As noted in [Agenda Paper 4.2](#) for Board Meeting 212 (May 2025), most stakeholders agreed with the proposals in Section 26 with no further comments. In addition, two stakeholders (professional services firms) generally agreed with the proposals but both:
  - (a) requested including in the Tier 3 Standard an explicit requirement or option to translate amounts into the entity's functional currency; and
  - (b) disagreed with the proposal in para. 2.25(d) of ED 335 to require financial statements to be presented in Australian dollars ('AUD'). The stakeholder that recommended *requiring* translation of amounts into the entity's functional currency also recommended that presentation in AUD should be a presumption that may be rebutted when AUD is not the entity's functional currency. The other stakeholder recommended providing an accounting policy choice to utilise a functional currency of AUD for its foreign operations or to apply the current requirements of AASB 121 *The Effects of Changes in Foreign Exchange Rates* (those requirements are noted below in paragraph 8).

### **Staff analysis of concerns expressed in stakeholders' feedback on SMC 35**

- 8 Staff note that, under the Tier 1/Tier 2 recognition and measurement requirements for foreign currency translation in AASB 121:
  - (a) an entity is required to translate its foreign currency transactions and balances into the entity's 'functional currency' (para. 21 and 23), which is defined in para. 8 of AASB 121 as "the currency of the primary economic environment in which the entity operates";
  - (b) an entity is permitted to use a presentation currency that differs from its functional currency (para. 18 of AASB 121). Therefore, requiring amounts to be presented in AUD would not of itself depart from the Tier 1/Tier 2 requirements; and
  - (c) when the entity's functional currency is not AUD and the presentation currency is AUD, a two-step process would be required, whereby amounts would first be translated into the functional currency (applying para. 20 – 34 of AASB 121) and then translated into the presentation currency (applying para. 38 – 50 of AASB 121). The key difference between those steps is that:
    - (i) exchange differences arising on translation of monetary items into the functional currency are generally recognised in profit or loss (para. 28 of AASB 121); whereas
    - (ii) exchange differences arising on translation of functional currency amounts into the presentation currency (AUD) are recognised in other comprehensive income (para. 39(c) of AASB 121).
- 9 Paragraph 26.1 of ED 335 does not specify whether exchange differences must be recognised in profit or loss or other comprehensive income (see also the other stakeholder comment

discussed in paragraph 12 below). Therefore, as referred to in paragraph 8(c), the main implication of specifying presentation of amounts in AUD when it differs from the entity's functional currency is that an entity that applies the Tier 3 Standard and elects to translate amounts into the functional currency will need to perform two translations.

- 10 Table 1 sets out the arguments for and against the Tier 3 Standard explicitly requiring or permitting translation of foreign currency amounts into the entity's functional currency. That issue is integral to the other main concern expressed by stakeholders (i.e. concern that para. 2.25(d) of ED 335 proposes a requirement to present financial statement amounts in Australian dollars) and therefore is the primary focus of Table 1.

**Table 1 Arguments for and against the Tier 3 Standard explicitly requiring or permitting translation of foreign currency amounts into the entity's functional currency**

Arguments in support of explicitly requiring or permitting translation of foreign currency amounts into the entity's functional currency	Arguments against explicitly requiring or permitting translation of foreign currency amounts into the entity's functional currency
<p>It was contended that many smaller NFP entities operate in at least one foreign jurisdiction (e.g. charities operating in developing countries) and have a different functional currency than AUD. Information about the functional currency amounts of Tier 3 NFP entities is relevant to users of those entities' financial statements.</p>	<p>Including requirements for reporting in the entity's functional currency would add considerable complexity to the Tier 3 Standard when it is uncommon for smaller NFP entities to have foreign operations and for those entities' functional currencies to be foreign currencies. AASB <a href="#">Research Report 19</a> <i>Common Financial Statement Items: Charities with \$0.5–\$3 million in revenue</i> stated that, of the sampled charities, 0.77% reported foreign income and loss on foreign exchange (page 14). In addition, it would increase significantly the cost of applying the Tier 3 Standard, which the Board concluded would not be proportionate for Tier 3 NFP entities. In assessing those costs, it should be borne in mind that a NFP entity might have operations in multiple foreign economic environments, and consequently it might be challenging to identify the entity's functional currency.</p> <p>Staff also consider the Board's view not to provide brief general guidance on foreign currency translation in the Tier 3 Standard seems equally applicable to adding guidance to support requirements for translation to a functional currency.</p> <p>If presentation of an entity's financial statements in a functional currency other than AUD is considered vitally important for a smaller NFP entity, that entity has the option to prepare its financial statements using Tier 2 reporting requirements (i.e. not apply the Tier 3 Standard at all) or report in both the functional currency and AUD (this second option is commented on in the next two rows of this table).</p>
<p>Translation using the functional currency is consistent with the Tier 1 and Tier 2 reporting requirements in AASB 121. Therefore, it facilitates the inclusion of the Tier 3 financial statement amounts into consolidated financial statements of the Tier 3 NFP entity's parent, if one exists, without also requiring a second translation into</p>	<p>It is likely that only a minority of smaller NFP entities would be subsidiaries included in the consolidated financial statements of an entity applying Tier 1 or Tier 2 reporting requirements.</p> <p>Whether the cost saving referred to in the adjacent column is realised would depend on whether the parent entity's functional currency is the same as the functional currency of the Tier 3 entity.</p>

Arguments in support of explicitly requiring or permitting translation of foreign currency amounts into the entity's functional currency	Arguments against explicitly requiring or permitting translation of foreign currency amounts into the entity's functional currency
a different presentation currency (AUD).	
Even where a smaller NFP entity is not consolidated into the financial statements of a parent entity, if translation of foreign currency amounts into the entity's functional currency that differs from AUD were performed for relevance reasons, the entity would need to incur the cost of a second translation into AUD.	<p>Requiring all NFP entities applying the Tier 3 Standard to present their financial statement amounts in AUD enhances the understandability and comparability of those financial statements.</p> <p>Regardless of whether the Tier 3 Standard requires presentation of financial statement amounts in AUD, for charities, reporting in the entity's functional currency if different from AUD would involve preparation of financial statements in two currencies because all charities, regardless of size, are required to submit their Annual Information Statements (which include a summary of financial information about the charities' income, expenses and balance sheet) in AUD.</p>

### **Staff recommendation**

- 11 Staff consider that the arguments in Table 1 for the Tier 3 Standard explicitly requiring or permitting translation of foreign currency amounts into the entity's functional currency, and for exempting entities from having to present their financial statement amounts in Australian dollars, are less convincing than the arguments against. In addition:
- (a) the content of Section 26 (para. 26.1) of ED 335 was strongly supported by stakeholders. This is consistent with almost all stakeholders commenting on the Tier 3 DP having supported the preliminary view that Tier 3 foreign currency translation requirements should align with the brief requirements of the New Zealand Tier 3 Standard; and
  - (b) the arguments raised by those who suggested requiring or permitting translation of foreign currency amounts into the entity's functional currency were considered by the Board when it developed its ED 335 proposal for Section 26.

Therefore, staff recommend not amending Section 26 to explicitly require or permit translation of foreign currency amounts into the entity's functional currency, and not amending paragraph 2.25(d) to exempt entities from the requirement to present their financial statement amounts in Australian dollars.

- 12 Staff also noted that a professional services firm commented that there is no explicit proposed requirement in ED 335 to present exchange differences arising from the translation of foreign currency transactions within profit or loss. However, they commented that this requirement is implied by para. 6.8(b) of ED 355.<sup>1</sup> As noted in paragraph 6, the Board previously rejected staff's suggestion to include guidance that the effects of changes in exchange rates on monetary asset and liability balances are recorded in profit or loss. Given the stakeholder comment that the requirement is unclear, staff also recommend adding to the end of paragraph 26.1(b) a brief reference to the effects of changes in exchange rates on monetary

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1 Para. 6.8(b) of ED 335 proposed that under the optional indirect method of presenting cash flow from operating activities, the entity shall adjust profit or loss for...unrealised foreign currency gains and losses....

asset and liability balances being recorded in profit or loss (consistent with the general requirement to do so in para. 28 of AASB 121).

**Question 1 for Board members:**

Do Board members agree with the staff recommendation in paragraphs 11 – 12 to finalise the Tier 3 requirements for foreign currency translation as exposed in Section 26 of ED 335, except for adding to the end of paragraph 26.1(b) a reference to the effects of changes in exchange rates on monetary asset and liability balances being recorded in profit or loss?

If not, what do Board members suggest?