International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

15 January 2016

Dear IFRS Interpretation Committee members

Invitation to comment – Draft IFRIC Interpretation DI/2015/2 Foreign Currency Transactions and Advance Consideration

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on Draft IFRIC Interpretation DI/2015/2 Foreign Currency Transactions and Advance Consideration (the DI).

We welcome the clarifications that the DI makes regarding the accounting for foreign currency transactions and advance consideration and we generally agree with the principles set out in the DI as they will reduce the existing diversity in practice. However, it would be helpful if the basis for conclusions acknowledged the need for judgement in determining which items are non-monetary.

We believe that the drafting of the proposals could be improved in a number of respects:

- The Committee should clarify paragraph 5(b) by describing the circumstances it considered when drafting the exemption, as this is not clear from the basis for conclusions.

- The condition in paragraph 8(b) can only be met by transactions that are outside the scope of the DI. To avoid confusion, we believe it is necessary to state that the DI does not change the accounting for transactions that meet the condition in paragraph 8(b).

- We agree with the proposed transition requirements. However, we believe that the Interpretations Committee should explicitly consider the interaction of the proposed reliefs with the transition requirements of IFRS 15 Revenue from Contracts with Customers, which will lead to retrospective adjustments of prepaid amounts (i.e., accelerated or delayed revenue recognition would have a corresponding effect on prepaid balances).

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully

Ernst & Young Global Limited
Appendix – Response to questions

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 believe that the proposed scope of the DI is appropriate.

We note that paragraph 4(c) requires that the ‘prepayment asset or deferred income liability is non-monetary’. In practice, under IAS 21 The Effects of Changes in Foreign Exchange Rates and IAS 29 Financial Reporting in Hyperinflationary Economies, considerable judgement is sometimes required to determine whether an item is ‘non-monetary’ or not (e.g., does a rarely used right to refunds automatically result in classification as a monetary item). It would be helpful if the Interpretations Committee acknowledged in the basis for conclusions the need for judgement in determining which items are non-monetary.

Paragraph 5(b) refers to a case in which the fair value of the consideration is not measured at the date of the prepayment. It would be helpful if the Interpretations Committee could include an example of such a transaction, as it is not clear from the basis for conclusions what circumstances the Committee considered in its deliberations.

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?

As noted in paragraph BC25, the Interpretations Committee concluded that the one-transaction approach is a more appropriate interpretation when dealing with advance consideration; the converse scenario, where payment occurs subsequently, is outside the
scope of paragraphs 4(b) and 4(c) of the DI. The condition in paragraph 8(b) can only be met by transactions that are outside the scope of the DI. To avoid confusion, we believe it is necessary to state that the DI does not change the accounting for transactions that meet the condition in paragraph 8(b).

**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?

We agree with the proposed transition requirements. However, we believe that the Interpretations Committee should explicitly consider the interaction of the proposed reliefs with the transition requirements of IFRS 15 *Revenue from Contracts with Customers*, which will lead to retrospective adjustments of prepaid amounts (i.e., accelerated or delayed revenue recognition would have a corresponding effect on prepaid balances).