

REGULATIONS

COMMISSION REGULATION (EU) 2018/519

of 28 March 2018

amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards Interpretation 22 of the International Financial Reporting Interpretations Committee

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ⁽¹⁾, and in particular Article 3(1) thereof,

Whereas:

- (1) By Commission Regulation (EC) No 1126/2008 ⁽²⁾ certain international standards and interpretations that were in existence at 15 October 2008 were adopted.
- (2) On 8 December 2016, the International Accounting Standards Board (IASB) issued Interpretation 22 *Foreign Currency Transactions and Advance Consideration* of the International Financial Reporting Interpretations Committee (IFRIC 22). The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.
- (3) The consultation with the European Financial Reporting Advisory Group confirms that the Interpretation IFRIC 22 meets the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.
- (4) Regulation (EC) No 1126/2008 should therefore be amended accordingly.
- (5) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

In the Annex to Regulation (EC) No 1126/2008, IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* is inserted as set out in the Annex to this Regulation.

Article 2

Each company shall apply the amendments referred to in Article 1, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2018.

⁽¹⁾ OJ L 243, 11.9.2002, p. 1.

⁽²⁾ Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (OJ L 320, 29.11.2008, p. 1).

Article 3

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 28 March 2018.

For the Commission
The President
Jean-Claude JUNCKER

ANNEX

IFRIC® Interpretation 22***Foreign Currency Transactions and Advance Consideration***

REFERENCES

- The Conceptual Framework for Financial Reporting
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 21 *The Effects of Changes in Foreign Exchange Rates*

BACKGROUND

1. Paragraph 21 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph 22 of IAS 21 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with IFRS Standards (Standards).
2. When an entity pays or receives consideration in advance in a foreign currency, it generally recognises a non-monetary asset or non-monetary liability ⁽¹⁾ before the recognition of the related asset, expense or income. The related asset, expense or income (or part of it) is the amount recognised applying relevant Standards, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.
3. The IFRS Interpretations Committee (the Interpretations Committee) initially received a question asking how to determine 'the date of the transaction' applying paragraphs 21–22 of IAS 21 when recognising revenue. The question specifically addressed circumstances in which an entity recognises a non-monetary liability arising from the receipt of advance consideration before it recognises the related revenue. In discussing the issue, the Interpretations Committee noted that the receipt or payment of advance consideration in a foreign currency is not restricted to revenue transactions. Accordingly, the Interpretations Committee decided to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

SCOPE

4. This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).
5. This Interpretation does not apply when an entity measures the related asset, expense or income on initial recognition:
 - (a) at fair value; or
 - (b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 *Business Combinations*).
6. An entity is not required to apply this Interpretation to:
 - (a) income taxes; or
 - (b) insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

⁽¹⁾ For example, paragraph 106 of IFRS 15 *Revenue from Contracts with Customers* requires that if a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e. a receivable), 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 made or the payment is due (whichever is earlier).

ISSUE

7. This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

CONSENSUS

8. Applying paragraphs 21–22 of IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
 9. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.
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*Appendix A***Effective date and transition**

This Appendix is an integral part of IFRIC 22 and has the same authority as the other parts of IFRIC 22.

EFFECTIVE DATE

A1 An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.

TRANSITION

A2 On initial application, an entity shall apply this Interpretation either:

- (a) retrospectively applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- (b) prospectively to all assets, expenses and income in the scope of the Interpretation initially recognised on or after:
 - (i) the beginning of the reporting period in which the entity first applies the Interpretation; or
 - (ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the Interpretation.

A3 An entity that applies paragraph A2(b) shall, on initial application, apply the Interpretation to assets, expenses and income initially recognised on or after the beginning of the reporting period in paragraph A2(b)(i) or (ii) for which the entity has recognised non-monetary assets or non-monetary liabilities arising from advance consideration before that date.

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Appendix B

The amendment in this Appendix shall be applied for annual reporting periods beginning on or after 1 January 2018. If an entity applies this Interpretation for an earlier period this amendment shall be applied for that earlier period.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards

Paragraph 39AC is added.

39AC IFRIC 22 *Foreign Currency Transactions and Advance Consideration* added paragraph D36 and amended paragraph D1. An entity shall apply that amendment when it applies IFRIC 22.

In Appendix D, paragraph D1 is amended. A heading and paragraph D36 are added.

D1 An entity may elect to use one or more of the following exemptions:

- (a) share-based payment transactions (paragraphs D2 and D3);
- (b) ...
- (t) designation of contracts to buy or sell a non-financial item (paragraph D33);
- (u) revenue (paragraphs D34 and D35); and
- (v) foreign currency transactions and advance consideration (paragraph D36).

Foreign Currency Transactions and Advance Consideration

D36 A first-time adopter need not apply IFRIC 22 *Foreign Currency Transactions and Advance Consideration* to assets, expenses and income in the scope of that Interpretation initially recognised before the date of transition to IFRS Standards.
