INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group
Issue Paper

AGENDA ITEM: TAGED10-03
28 February 2023 – Online

Section 30 –Foreign currency translation

Summary	This paper provides TAG members with the draft of Section 30, with the associated Application Guidance and Implementation Guidance.
Purpose/Objective of the paper	To allow TAG members to consider the NPO specific issues associated with foreign currency translation and to consider the changes need to align Section 30 with other Sections of INPAG.
Other supporting items	None
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Actions for this meeting	**Comment and advise** on: (i) the updates to Section 30 to align with other Sections and to address NPO specific issues (ii) the scope of the Application Guidance in addressing NPO specific issues (iii) the illustrative examples

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Section 30 – Foreign currency translation

1. Background

1.1 A number of respondents to the Consultation Paper issued in January 2021 provided feedback that foreign currency translation should be treated as a priority topic for inclusion in INPAG. This feedback was discussed with both the PAG and the TAG. The PAG strongly supported the inclusion of this topic in INPAG, given the significant practical difficulties experienced by NPOs.

1.2 The TAG in its consideration of this feedback sought to understand the nature of the concerns raised in feedback from respondents. Through these discussions the conclusion was that the issues being raised were not about the accounting principles for foreign currency translation, but the application of those principles in the NPO context and particularly the presentation and disclosure of foreign currency gains and losses associated with grant funding.

1.3 As a consequence it was decided to prioritise this topic for inclusion in INPAG. At the September TAG meeting it was agreed that in the approach to this topic the focus should be on presentation and disclosure and associated application guidance and implementation guidance. It was agreed not to review the principles for accounting for foreign currency translation in the *IFRS for SMEs* Accounting Standard.

1.4 Given the potentially wide application of Section 30 within NPOs, further discussions will be held, including with the PAG when it meets on 8 March to look at additional examples. Any significant additional matters identified will be raised at the TAG meeting.

2. Core text

2.1 Section 30 (See Annex A) has been modified to reflect NPO related terminology and the scope of the financial statements. It has also been updated to reflect the likely sources of income and expense in NPOs such as grants and donations. It has not been the subject of a full update.

2.2 The other main amendment is the inclusion of an additional disclosure. This requires the disclosure of exchange gains and losses arising from binding grant agreements that are treated as restrictions.

Question 1: Do TAG members agree with the additional text included in Section 30, relating to the sources of income and expense and the additional disclosure?

Question 2: Do TAG members consider any other substantive changes are required in Section 30?

3. Application Guidance

3.1 To support the application of the core text, additional authoritative guidance has been created. This guidance:

- provides more detailed guidance on identification of functional currency
- extends the guidance on initial recognition of foreign currency transactions to include transactions that may be more relevant to NPOs
- includes a requirement to separately present foreign currency gains and losses arising in relation to restricted funds
- notes that use of a presentation currency other than the functional currency may be relevant in providing reporting to donors with a different functional currency

Question 3: Do TAG members agree with scope of the application guidance? Are there additional matters on which guidance should be provided?

Question 4: Do TAG members agree with the proposal to include a requirement to separately present foreign currency gain and losses relating to restricted funds? Does this proposal provide sufficient transparency of exchange rate exposures relating to revenue from grants, donations and similar income? Is this proposal proportionate?

4. Implementation Guidance

4.1 Implementation Guidance (See Annex C) with illustrative examples has been developed for foreign currency translation. A number of examples have been created to the implication f grant funds that have been made in currencies other than the functional currency. This is the issue we understand to be of significant concern to NPOs. The illustrative examples show how income, expenses and gains and losses will be shown on the face of the Income and Expenses Statement, including whether they will be shown as ‘with restrictions’ or ‘without restrictions’. The examples also show the impact on unrestricted funds in the balance sheet, which has been stated as important in understanding the sustainability of NPO finances.

4.2 The illustrative examples have been framed to:

- provide guidance for the judgements applied in identifying an NPO's functional currency
- explain how to account for transactions with a different denomination and settlement currency
- provide detailed guidance on how exchange rates may impact transactions involving grants or donations,, resulting in differences between income received and the obligation to incur costs
- to clarify the scope and limitations of the use of a presentation currency other than the function currency
- to provide guidance on how exchange rate differences and exposures relating to revenue transactions for grants, donations, or similar income, are disclosed

Question 5: Do TAG members agree with the scope of the implementation guidance and examples?

Question 6: Do TAG members agree with the approach set out in the illustrative examples for recording the impact of changes in exchange rates on revenues from grants, donations of similar income? In particular, do TAG members agree with:

- the proposed re-translation of foreign currency binding grant arrangement obligations at each reporting date,
- the approach set out for the separation of transactions into restricted and non-restricted, and
- the principle that restricted income should be limited to the proceeds received from the grantor at the applicable spot rate?

Question 7: Do the TAG members agree with the guidance provided for the disclosure of

5. Next steps

5.1 The authoritative guidance will be amended to reflect TAG member feedback. A Basis for Conclusions will be developed to reflect the feedback of the TAG and provided as part of the full draft of ED2.

February 2023

Notice

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Annex A

Section 30 – Foreign currency translation

Scope of this Section

G30.1 An NPO can conduct foreign activities in two ways. It may have transactions in foreign currencies or it may have **foreign operations**. In addition, an NPO may present its **financial statements** in a foreign currency. This section prescribes how to include foreign currency transactions and foreign operations in the financial statements of an NPO and how to translate financial statements into a **presentation currency**. Accounting for **financial instruments** that derive their value from the change in a specified foreign exchange rate (for example, foreign currency forward exchange contracts) and hedge accounting of foreign currency items are dealt with in Part II of Section 11 *Other Financial Instrument Issues*

Functional Currency

G30.2 Each NPO shall identify its **functional currency**. An NPO's functional currency is the currency of the primary economic environment in which the NPO operates.

G30.3 The primary economic environment in which an NPO operates is normally the one in which it primarily generates and expends cash. Consequently, the following are the most important factors an NPO considers in determining its functional currency:

(a) the currency:

(i) that mainly influences sales prices for goods, and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods, and services.

(b) the currency that mainly influences labour, material and other costs of providing services, goods, (this will often be the currency in which such costs are denominated and settled).

(c) the currency that mainly influences the value of grants, donations and similar income and the cost of providing grants, donation and similar expenses (this will often be the currency in which such incomes or costs are denominated and settled)

G30.4 The following factors may also provide evidence of an NPO's functional currency:

(a) the currency in which funds from financing activities (issuing debt and **equity** instruments or receiving loans) are generated; and

(b) the currency in which receipts from operating activities are usually retained including cash balances retained as reserves.

G30.5 The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting NPO (the reporting NPO, in this context, being the NPO that has the foreign operation as its **controlled entity**, branch, **associate** or **joint arrangement**):

(a) whether the activities of the foreign operation are carried out as an extension of the reporting NPO, instead of being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting NPO and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other **monetary items**, incurs **expenses**, generates **income** and arranges borrowings, all substantially in its local currency.

(b) whether transactions with the reporting NPO are a high or a low proportion of the foreign operation's activities.

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting NPO and are readily available for remittance to it.

(d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting NPO.

Reporting foreign currency transactions in the functional currency

Initial recognition

G30.6 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an NPO:

(a) buys or sells goods or services whose price is denominated in a foreign currency,

(b) enters into transactions such as grants or donations, which are denominated in foreign currency

(c) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

(d) otherwise acquires or disposes of **assets**, or incurs or settles **liabilities**, denominated in a foreign currency.

G30.7 An NPO shall record a foreign currency transaction, on initial **recognition** in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

G30.8 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this Guidance. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

G30.9 When an NPO pays or receives consideration in advance in a foreign currency, it recognises a non-monetary asset or non-monetary liability. The exchange rate to be used on the initial recognition of the related asset, expense or income (or part of it) is the exchange rate at the date on which the NPO initially recognised the non-monetary asset or the non-monetary liability arising from the payment or receipt of advance consideration.

Reporting at the end of the subsequent reporting periods

G30.10 At the end of each **reporting period**, an NPO shall:

(a) translate foreign currency monetary items using the **closing rate**;

(b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and

(c) translate non-monetary items that are measured at **fair value** in a foreign currency using the exchange rates at the date when the fair value was determined.

G30.11 An NPO shall recognise, in **surplus or deficit** in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods, except as described in paragraph G30.14.

G30.12 When another section of this Guidance requires a gain or loss on a non-monetary item to be recognised in the **Statement of Changes in Net Assets**, an NPO shall recognise any exchange component of that gain or loss in the Statement of Changes in Net Assets. Conversely, when a gain or loss on a non-monetary item is recognised in surplus or deficit, an NPO shall recognise any exchange component of that gain or loss in surplus or deficit.

Net investment in a foreign operation

G30.13 An NPO may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the NPO's net investment in that foreign operation, and is accounted for in accordance with paragraph G30.14. Such monetary items may include long-term receivables or loans. They do not include ~~trade~~ receivables or ~~trade~~ payables.

G30.14 Exchange differences arising on a monetary item that forms part of a reporting NPO's net investment in a foreign operation shall be recognised in surplus or deficit in the **separate financial statements** of the reporting NPO or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting NPO (for example, **consolidated financial statements** when the foreign operation is a controlled entity), such exchange differences shall be recognised in the Statement of Changes in Net Assets and reported as a component of equity. They shall not be recognised in surplus or deficit on disposal of the net investment.

Change in functional currency

G30.15 When there is a change in an NPO's functional currency, the NPO shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

G30.16 As noted in paragraphs G30.2–G30.5, the functional currency of an NPO reflects the underlying transactions, events and conditions that are relevant to the NPO. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an NPO's functional currency.

G30.17 The effect of a change in functional currency is accounted for prospectively. In other words, an NPO translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

G30.18 An NPO may present its financial statements in any currency (or currencies). If the presentation currency differs from the NPO's functional currency, the NPO shall translate its items of income and expense and **financial position** into the presentation currency. For example, when a **group** contains individual entities with different functional currencies, the items of income and expense and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

G30.19 An NPO whose functional currency is not the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the following procedures:

(a) assets and liabilities for each **Statement of Financial Position** presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each **Statement of Income and Expenses** (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognised in the Statement of Changes in Net Assets and reported as a component of equity. They shall not subsequently be reclassified to surplus or deficit.

G30.20 For practical reasons, an NPO may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

G30.21 The exchange differences referred to in paragraph G30.19(c) result from:

(a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate; and

(b) translating the opening net assets at a closing rate that differs from the previous closing rate.

When the exchange differences relate to a foreign operation that is consolidated but not fully controlled, accumulated exchange differences arising from translation and attributable to the **non-controlling interest** are allocated to, and recognised as part of, non-controlling interest in the consolidated statement of financial position.

G30.22 An NPO whose functional currency is the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the procedures specified in Section 31 *Hyperinflation*.

Translation of a foreign operation into the controlling NPO's presentation currency

G30.23 In incorporating the assets, liabilities, income and expenses of a foreign operation with those of the reporting NPO, the NPO shall follow normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a controlled entity (see Section 9 *Consolidated and Separate Financial Statements*) and the translation procedures set out in paragraphs G30.18–G30.22. However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting NPO to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements, a reporting NPO continues to recognise such an exchange difference in surplus or deficit or, if it arises from the circumstances described in paragraph G30.14, the NPO shall recognise it in the Statement of Changes in Net Assets.

G30.24 Any **goodwill** arising on the acquisition of a foreign operation and any fair value adjustments to the **carrying amounts** of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraph G30.19.

Disclosures

G30.25 In paragraphs G30.27 and G30.28, references to 'functional currency' apply, in the case of a group, to the functional currency of the **controlling NPO**.

G30.26 An NPO shall disclose the following:

(a) the amount of exchange differences recognised in surplus or deficit during the period, except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with Section 11 *Financial Instruments*;

(b) the amount of exchange differences arising during the period and classified in a separate component of equity at the end of the period; and

(c) the amount of exchange differences arising from restricted funds, such as binding grant obligations from grants, or grant receivables, which shall be separately recognised from other exchange rate differences, either in the primary statement or in the notes to the financial statements.

G30.27 An NPO shall disclose the currency in which the financial statements are presented. When the presentation currency is different from the functional currency, an NPO shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.

G30.28 When there is a change in the functional currency of either the reporting NPO or a significant foreign operation, the NPO shall disclose that fact and the reason for the change in functional currency.

Application Guidance – Section 30 - *Foreign currency translation*

AG30.1 Section 30 - *Foreign Currency Translation* sets out how an NPO accounts for activities carried out in currencies other than its own functional currency and sets out the principles to apply. Further guidance and illustrative examples are provided in the Implementation Guidance.

AG30.2 **The functional currency** is the main currency of the NPO's activity. There are two ways in which an NPO may have activities in other currencies.

- It may enter into transactions, such as selling or buying goods or services, receiving or paying money, receiving or making donations, borrowing or lending, in currencies other than its own functional currency.
- It may have foreign operations, such as an overseas branch, controlled entity, associate or joint venture, which mainly carry out their activities in a different principal currency and hence have a different function currency to the NPO itself.

AG30.3 In addition, an NPO may choose to prepare its financial statements in a currency that differs from its own functional currency. In this event, the currency used for preparing and reporting the financial statements is defined as the **presentation currency**.

Functional Currency

AG30.4 The functional currency of an NPO shall be identified when the NPO is established. In practice this may occur when its general ledger is set up or when the first financial statements are prepared. Functional currency is identified through an assessment. It is not an accounting policy choice. Once the functional currency of an NPO has been identified it shall only be changed if the circumstances considered in the assessment change.

AG30.5 The functional currency of the NPO shall be identified by considering its primary economic environment, as set out in G30.3-G30.4. The primary economic environment is the currency in which the NPO mainly operates. For some NPOs, this may be relatively straightforward and will be the domestic currency of the country of operation of the NPO. For others, who have significant foreign currency transactions or overseas operations, the identification may require further analysis.

AG30.6 The most significant indicators of the economic environment are the currency that impacts grants and donations (both received and paid), the prices of its sales of goods and services, its purchases of goods and services, and its payment of other costs such as employees' costs. Usually this will be the currency in which these transactions are denominated and paid. If these indicators alone do not give a clear identification of the functional currency, other indicators relating to the financing of the NPO shall be considered, such as the currency of funding through equity or borrowings, and the currency in which the NPO chooses to retain any significant cash surpluses.

AG30.7 If an NPO receives the majority of its funding in a currency other than its domestic currency, then it shall perform a detailed assessment to identify its functional currency.

AG30.8 Where the NPO has overseas operations, such as a branch, controlled entity, associate or joint arrangement, the functional currency of the overseas operation shall be identified also. As set out in G30.5, the initial consideration is to decide whether the overseas operation has a separate economic environment to the NPO holding the overseas operation, the *Controlling NPO.*

AG30.9 If the overseas operation has a separate economic environment, the functional currency of the overseas operation shall be assessed, independently from that of the controlling NPO. This shall be assessed using the same approach as for any stand-alone NPO , as set out in G30.3 – G30.4.

AG30.10 If the overseas operation does not have a separate economic environment, then the functional currency of the controlling NPO and overseas operation will be the same.

AG30.11 The factors to consider when identifying if the economic environment of the overseas operation is different from that of the controlling NPO are set out in G30.5. The four factors listed are means to assess the degree of financial interaction and dependency between the controlling NPO and the overseas operation. If there is very little interaction, so that the overseas operation mostly manages its own finances, it is probable that they have a separate economic environment. If there is a significant transfer of cash or funds between the controlling NPO and the overseas operation, in the form of investment, remittances, payments or receipts for goods and services, or grants or donations, it is probable that they have the same economic environment.

Reporting foreign currency transactions in the functional currency

AG30.12 Foreign currency transactions are any transactions the NPO enters into which are denominated in or settled in a currency other than its functional currency. These could include purchases or sales of goods or services, receipts, or payments of grants or donations, cash, borrowings, loans or capital acquisitions or disposals.

AG30.13 Subsequently, at each balance sheet date, foreign currency monetary items should be translated using the closing exchange rate, which is the exchange rate at the balance sheet date. Monetary items are items either held in cash or which will result in a future inflow or outflow of cash, for example debtors, grant receivables, creditors, grant payables, loans, or borrowings. Payments made in advance by grant providers for grants or donations which have unfulfilled compliance obligations (binding grant arrangement obligation) shall also be considered as monetary items.

AG30.14 Non-monetary items, such as property, plant and equipment or intangible assets, if measured at historical cost, shall continue to be translated at the initial exchange rate used at the date of the transaction. As a result, no further foreign exchange translation arises on these items after their initial recognition.

AG30.15 Non-monetary items which are measured at fair value, such as property plant and equipment held at fair value, shall be translated using the exchange rate when the fair value was determined. Hence these items will be re-translated at subsequent balance sheet dates.

AG30.16 Exchange rate differences will arise as a result of the re-translation of foreign currency items, as described in G30.9 – G30.11. Exchange rate differences arising from restricted funds, such as binding grant obligation liabilities from grants, or grant receivables, shall be separately recognised from other exchange rate differences, either in the primary statement or in the notes to the financial statements. Examples of the impact of exchange rate differences on restricted and unrestricted funds are included in the illustrative examples at IG30.8 and IG30.9.

AG30.17 Where exchange rate changes impact the amount of expenditure an NPO is required to incur under the terms of the grant, the potential for the existence of an onerous obligation or contingent liability shall be considered.

Net Investment in a foreign operation

AG30.18 For NPOs with foreign operations, G30.12-G30.13 sets out how exchange rate gains or losses arising on monetary items receivable from the foreign operation, where settlement of the item is not planned or anticipated, are recognised in financial statements of the NPO containing the foreign operation (such as consolidated financial statements of the controlling NPO).

Use of a presentation currency other than the functional currency

AG30.19 While it is usual for NPOs to present their financial statements in the NPO's functional currency, it is permitted to present the financial statements in any currency. This may desirable where the functional currency is not the domestic currency of the NPO, or if the NPO needs financial statements in a particular currency for a specific purpose, for example where this has been requested by a donor. Hence the presentation currency used for a set of financial statements is a choice. Where a presentation currency is used for financial statement, the approach set out in G30.17-G30.21 shall be applied to the financial statements in their entirety. Presentation of a part of the financial statements, for example, just the Statement of Income and Expense in the donor's currency, shall be presented outside the financial statement. This can be either in supplementary statements [to be included in ED3] or in special purpose financial information.

AG30.20 A frequent application of the use of a presentation currency is for the translation of the results of an overseas operation with a different functional currency to its parent, the controlling NPO, so that the financial statements can be presented in a common currency, which is usually the functional currency of the controlling NPO.

AG30.21 Where monetary assets or liabilities are held between the controlling NPO and an overseas operation, (for example a loan or short-term payable from one party to the other), consolidation in a common currency will not eliminate any foreign exchange gain or loss arising in the financial statements of the party holding the foreign currency item. As a result, any foreign exchange gain or loss arising will be reported in the consolidated financial statements, even though the intergroup assets or liabilities themselves are eliminated on consolidation.

Disclosure

AG30.22 Disclosures required relating to foreign exchange are set out in G30.24-30.27. As described in AG30.16, exchange gains or losses arising from restricted funds, shall be separately recognised from other exchange gains or losses.

Annex B

Implementation Guidance – Section 30 – *Foreign currency translation*

How should the functional currency of the NPO be identified?

IG30.1 The functional currency of an NPO is identified by assessing which is the currency of its primary economic environment. This is the economic environment where it mainly generates and expends cash. The most important factors to consider in this assessment are described in G30.3.

IG30.2 Often, this assessment will be straightforward. For example, if an NPO, based in a country with currency CX, receives grants and donations in a number of currencies including CX, pays for goods and services to deliver its public benefit in a range of currencies, with CX being the most significant, and pays its workforce and property rental costs and other overheads in CX, then its functional currency will be CX.

IG30.3 In more complex cases it may be necessary to consider the additional factors described in G30.4. For example, if the NPO in the example above mainly receives its funding from donors in currency CY, pays for its direct costs in a range of currencies with CY being the most significant, but pays its overhead costs in CX, then it is possible that functional currency cannot be identified from the primary characteristics alone.

IG30.4 In this example, the secondary characteristics, relating to funding, should be considered. If the NPO retains significant cash surpluses in CX or has borrowings in CX, then it is likely that its functional currency would still be CX. The management of the NPO, in deciding to manage its funding in CX, may have considered that, although they are exposed to a range of currencies through income and direct costs, access to funding in CX is a priority given the relative significance of the NPO's CX cash flows compared to any other single currency.

IG30.5 Alternatively, if the NPO raised borrowings in CY and retained its donations in CY until they are required, then it is probable that the functional currency of the NPO would be CY. In this instance, the management's decision to denominate funding in CY probably reflects the relative materiality of the direct costs incurred in CY compared to the overheads in CX, indicating that CY is the functional currency.

IG30.6 In the more complex assessments, the materiality of the currency flows and balances should be considered and the management's approach to managing currency exposures and funding may provide an indication of the primary economic environment. In the most extreme case, where no single currency dominates, the functional currency may be the currency of the country in which the NPO is based, given the absence of a clear reason to identify any alternative.

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How are transactions which are denominated and settled in different currencies accounted for?

IG30.7 A transaction may be denominated in one currency and settled in another. This may happen where a provider of a good or service may wish for it to be priced in a currency that the provider operates in but, for convenience of settlement, both parties agree to settle the transaction in the recipient's currency.

Example 1
Supplier X, who is based in a country with currency CX, supplies a good to NPO Y, based in a country with currency CY. Supplier X wishes the sale to be denominated in currency CX, which is the domestic currency and functional currency. However, NPO Y is only able to make payments in currency CY. Supplier X agrees to receive currency CY. The amount paid will be the price of the good, denominated in CX, and the agreement requires that this is converted into CY at the spot rate on the date the payment is made, which is 3 months after supply of the good.

The price of the good is CX 10. The exchange rate is 1CX = 10 CY when the good is supplied. The exchange rate is 1 CX = 15 CY when the payment is made.

When the good is supplied, Supplier X records a sale of CX10 and a receivable of CX10. At the same time, NPO Y records an expense of CY100 and a payable of CY100.

At the date of settlement, NPO Y will need to pay CY150 to Supplier X, as this is the equivalent of CX10 on that date. NPO Y will recognise a cash outflow of CY150, a settlement of the payable of CY100 and a foreign exchange loss of CY50. Supplier X will recognise a cash inflow of CX10 and a settlement of the receivable of CX10. Note that Supplier X's cash inflow of CX10 represents CY150 until it is converted into CX by Supplier X. If Supplier X retains this cash in CY, then Supplier X may incur foreign exchange gains or losses on this balance in the future. If, however, Supplier X immediately converts the balance of CY150 into CX10, then the foreign exchange exposure is eliminated.

How are grants recognised where the grant agreement defines the basis of the rate to apply?

IG30.8 Some grants or donations are made to fund a defined amount of expenditure by the recipient. If the recipient is incurring costs in a different currency or currencies to that of the grant, then the grant may define how the amount being funded is calculated. The potential impact of foreign currency on grants is set out in the following examples.

Example 2
On 1 January 20X3, NPO X receives a grant of CY50 from donor Y, when the exchange rate is 2CX = 1CY. The functional currency of X is CX. This example sets out the impact on three possible scenarios.

a) The grant agreement specifies that the grant related expenditure is measured against the grant at the spot rate when the grant is settled

b) The grant agreement specifies that the grant related expenditure is measured against the grant at the spot rate when the expenditure is incurred

c) The grant agreement specifies that the grant related expenditure is measured against the grant using an exchange rate defined in the grant agreement of 3CX =1CY

Assuming NPO X translates the grant into CX100 on receipt, at the spot rate, and only incurs expenditure in currency CX, NPO X accounts for these three scenarios as follows:

a) Grant related expenditure is measured at the spot rate when the grant is settled

Recognition of grant receipt as a binding grant arrangement obligation (BGA obligation)

Dr Cash	CX100	
Cr BGA obligation		CX100

Recognition of grant related expenditure and related grant revenue
NPO X incurs grant related expenditure of CX100 on 1 June 20X3, when the spot rate is 2.5CX = 1CY.

Dr Expenses - restricted	CX100	
Cr Cash		CX100
Dr BGA obligation	CX100	
Cr Revenue – restricted		CX100

From the perspective of donor Y, X has incurred grant related expenditure of CY50, measured at the spot rate on the date of grant of 2CX = 1CY. The subsequent change in exchange rate has no impact on the grant from either X or Y's perspective.

After recording all the transactions, the impact on X's primary statements is as follows:

	Restricted CX	Unrestricted CX	Total CX
Statement of income and expenses			
Revenue	100		100
Expenses	(100)		(100)
Operating surplus/(deficit)	0		0
Foreign exchange gain/(loss)	0		0
Surplus/(deficit)	0		0
Statement of changes in net assets			
Surplus/(deficit)	0		0
Movement between reserves	0		0
Closing balance	0		0
Statement of financial position			
Cash	0		0

b) Grant related expenditure is measured at the spot rate when expenditure is incurred

Recognition of grant receipt as a binding grant arrangement obligation (BGA obligation)

Dr Cash	CX100	
Cr BGA obligation		CX100

Recognition of grant related expenditure and related grant revenue
Since the binding grant arrangement obligation is an obligation to incur grant related expenses, which is denominated in CY and measured against CX only when the expense is incurred, the binding grant arrangement obligation is remeasured at the reporting date using the spot exchange rate of 2.5CX = 1CY when the expense is incurred

Dr Foreign exchange loss	CX25	
Cr BGA obligation		CX25

NPO X incurs grant related expenditure of CX100 on 1 June 20X3, when the spot rate is 2.5CX = 1CY.

Dr Expenses - restricted	CX100	
Cr Cash		CX100
Dr BGA obligation	CX100	

Cr Revenue – restricted		CX100

Clearing additional grant obligation arising due to change in exchange rate
NPO X has an obligation to spend a further CX25, being the remaining balance of the binding grant arrangement obligation. As a result, NPO X incurs a further CX25 of expenditure at the same spot exchange rate.

Dr Expenses – restricted	CX25	
Cr Cash		CX25
Dr BGA obligation	CX25	
Cr Revenue – unrestricted		CX25

The additional revenue of CX25 is recognised as unrestricted as it exceeds the value of the grant received by NPO X, measured at the spot rate on the date of settlement.
From the perspective of donor Y, X has incurred grant related expenditure of CY50, being CX125 measured at the spot rate of 2.5CX = 1CY on the date the expenditure is incurred. The change in exchange rate results in NPO X incurring an exchange loss and incurring CX25 more expenditure than was received as revenue.

Movement between reserves
The transactions result in a deficit of CX25 in restricted income, which must be funded from unrestricted income.

Dr Funds without restrictions	CX25	
Cr Funds with restrictions		CX25

After recording all the transactions, the impact on X's primary statements is as follows:

	Restricted CX	**Unrestricted CX**	**Total CX**
Statement of income and expenses			
Revenue	100	25	100
Expenses	(125)	0	(100)
Operating surplus/(deficit)	(25)	25	0
Foreign exchange gain/(loss)	0	(25)	(25)
Surplus/(deficit)	0	(25)	(25)
Statement of changes in net assets			
Surplus/(deficit)	(25)	0	(25)
Movement between reserves	25	(25)	0
Closing balance	0	(25)	(25)

Statement of financial position			
Cash	0	(25)	(25)

If, in this scenario, the exchange rate on 1 June 20X3 had been 1.5CX = 1CY, then NPO X would have recorded an exchange gain of CX25 on revaluation of the binding grant arrangement obligation. As a result, NPO X may only have needed to incur expenses of CX75, resulting in a cash surplus of CX25. However, if the grant agreement had included a requirement that NPO X was required to spend any cash surpluses, then the binding gratn arrangement obligation would have needed to be increased by CX25, offsetting any reduction because of exchange rates, since the obligation under the grant agreement is never less than CX100 in this instance. This increase in obligation is recorded as other gains or losses as it arises from a term in the grant, not as a direct result of foreign exchange translation.

Though NPO X would incur grant related expenses and receive grant revenue of CX100, from the perspective of donor Y, expenditure of CY67 would have been incurred, more than the original grant provided in CY. The additional expenditure arises from the requirement in the grant agreement for NPO X to spend any exchange gains on grant related expenditure. The resulting impact on NPO X's primary statements would be as follows:

	Restricted CX	**Unrestricted CX**	**Total CX**
Statement of income and expenses			
Revenue	100	0	100
Expenses	(100)	0	(100)
Operating surplus/(deficit)	0	0	0
Other gains/(losses)	0	(25)	(25)
Foreign exchange gain/(loss)	0	25	(25)
Surplus/(deficit)	0	(0)	(25)
Statement of changes in net assets			
Surplus/(deficit)	0	0	0
Movement between reserves	0	0	0
Closing balance	0	0	0
Statement of financial position			
Cash	0	0	0

c) Grant related expenditure is measured using a defined rate of 3CX = 1CY

Recognition of grant receipt
Though NPO X receives CX100 in cash on 1 January 20X3, the agreement imposes an obligation to incur expenditure of CX150 (measured at the rate of 3CX = 1CY set out in the agreement). As a result, NPO X records an obligation of CX150. The increase of CX50 is recorded in other gains and losses as it arises in relation to a term in the grant agreement, not from a change in exchange rates.

Dr Cash	CX100	
Dr Other gains and losses	CX50	
Cr BGA obligation		CX150

Recognition of grant related expenditure and related grant revenue
NPO X incurs grant related expenditure of CX100 on 1 June 20X3, when the spot rate is 2.5CX = 1CY.

Dr Expenses - restricted	CX100	
Cr Cash		CX100
Dr BGA obligation	CX100	
Cr Revenue – restricted		CX100

Clearing additional grant obligation arising due to change in exchange rate
NPO X has an obligation to spend a further CX50, being the remaining balance of the obligation based on the exchange rate on receipt of the grant. As a result, NPO X incurs a further CX50 of expenditure at the same spot exchange rate.

Dr Expenses – restricted	CX50	
Cr Cash		CX50
Cr BGA obligation	CX50	
Cr Revenue – unrestricted		CX50

The additional revenue of CX50 is recognised as unrestricted as it exceeds the value of the grant received by NPO X, measured at the spot rate on the date of settlement
From the perspective of donor Y, NPO X has incurred grant related expenditure of CY50, being CX150 measured at the rate of 3.0CX = 1CY as defined in the agreement, whereas NPO X incurs CX50 more expenditure that was received as revenue.

Movement between reserves
The transactions result in a deficit of CX50 in restricted income, which must be funded from unrestricted income.

Dr Funds without restrictions	CX50	
Cr Funds with restrictions		CX50

After recording all the transactions, the impact on X's primary statements is as follows:

	Restricted CX	Unrestricted CX	Total CX
Statement of income and expenses			
Revenue	100	50	150
Expenses	(150)	0	(150)
Operating surplus/(deficit)	(50)	50	0
Other gains/(losses)	0	(50)	(50)
Surplus/(deficit)	(50)	(0)	(50)
Statement of changes in net assets			
Surplus/(deficit)	(50)	0	(50)
Movement between reserves	50	(50)	0
Closing balance	0	(50)	(50)
Statement of financial position			
Cash	0	(50)	(50)

Example 3 - *Expenditure reimbursed by grants in arrears*

On 1 September 20X2, NPO X enters into an agreement for a grant with donor Y, specifying expenditure will be reimbursed up to an amount of CY50. NPO X incurs grant related expenditure of CX100 on 1 January when the spot exchange rate is 2CX = 1CY. This example sets out the impact on a further three possible scenarios.

a) The grant agreement specifies that the grant related expenditure is measured against the grant at the spot rate when the expenditure is reimbursed

b) The grant agreement specifies that the grant related expenditure is measured against the grant at the spot rate when the expenditure is incurred

c) The grant agreement specifies that the grant related expenditure is measured against the grant using an exchange rate defined in the grant agreement of 3CX =1CY

Assuming donor Y reimburses the expenditure on 1 June 20X3, when the spot rate is 2.5CX = 1CY, which NPO X converts into CX immediately at the spot rate, then NPO X accounts for these three scenarios as follows:

a) Grant related expenditure is measured at the spot rate when expenditure is reimbursed

Recognition of grant related expenses and related grant revenue

Cr Cash		CX100
Dr Expenses – restricted	CX100	
Dr Grant receivable	CX100	
Cr Revenue – restricted		CX100

Reimbursement of grant related expenditure
Since the grant related expenditure is measured by the donor at the rate when the expenditure is reimbursed, being 2.5CX = 1CX, the expenditure is measured as CY40 by donor Y, which is less than the grant limit. NPO X converts the settlement into CX100, as there is no change in exchange rate between measurement and settlement.

Dr Cash	CX100	
Cr Grant receivable		CX100.

After recording all the transactions, the impact on X's primary statements is as follows:

	Restricted CX	Unrestricted CX	Total CX
Statement of income and expenses			
Revenue	100		100
Expenses	(100)		(100)
Operating surplus/(deficit)	0		0
Foreign exchange gain/(loss)	0		0
Surplus/(deficit)	0		0
Statement of changes in net assets			
Surplus/(deficit)	0		0
Movement between reserves	0		0
Closing balance	0		0
Statement of financial position			
Cash	0		0

If the exchange rates had moved in the opposite direction, it is possible that the claim would have exceeded the grant limit. In this event, NPO X would have needed to revalue the grant receivable to reflect the amount to be received, with a corresponding reduction in revenue. For example, if the exchange rate on 1 June 20X3 had been 1.5CX = 1CY, then NPO X would only have been entitled to reimbursement of CX75, with a deficit of CX25 being incurred in restricted funds. This deficit would have to be cleared through a movement from unrestricted funds.

	Restricted CX	**Unrestricted CX**	**Total CX**
Statement of income and expenses			
Revenue	75		100
Expenses	(100)		(100)
Operating surplus/(deficit)	(25)		(25)
Foreign exchange gain/(loss)	0		0)
Surplus/(deficit)	(25)		(25)
Statement of changes in net assets			
Surplus/(deficit)	(25)	0	(25)
Movement between reserves	25	(25)	0
Closing balance	0	(25)	(25)
Statement of financial position			
Cash	0	(25)	(25)

b) Grant related expenditure is measured at the spot rate when expenditure is incurred.

Recognition of grant related expenses and related grant revenue

Cr Cash		CX100
Dr Expenses – restricted	CX100	
Dr Grant receivable	CX100	
Cr Revenue – restricted		CX100

Settlement of grant receivable
Since the grant related expenditure is measured by the donor at the rate when the expenditure is incurred, the donor agrees to pay CY50 to NPO X, being CX100 translated at the spot rate of 2CX = 1CY on 1 January 20X3. When the expenditure is due to be reimbursed, the spot rate is 2.5CX = 1CX, the receivable of CY50 is equivalent to CX125. NPO X recognises an exchange gain of CX25.

Dr Grant receivable	CX25	

Cr Foreign exchange gain		CX25

The settlement of the grant clears the receivable, after revaluation.

Dr Cash	CX125	
Cr Grant receivable		CX125

After recording all the transactions, the impact on X's primary statements is as follows:

	Restricted CX	Unrestricted CX	Total CX
Statement of income and expenses			
Revenue	100		100
Expenses	(100)		(100)
Operating surplus/(deficit)	0		0
Foreign exchange gain/(loss)	0	25	25
Surplus/(deficit)	0	25	25
Statement of changes in net assets			
Surplus/(deficit)	0	25	25
Movement between reserves	0		0
Closing balance	0	25	25
Statement of financial position			
Cash	0	25	25

c) Grant related expenditure is measured at a defined rate of 3CX = 1CY

Recognition of grant related expenses and related grant revenue
The agreement specifies that grant related expenses are measured at an exchange rate of 3CX = 1CY. Though NPO X incurs expenditure of CX100 on 1 January 20X3, this results in a grant of only CY33. This is equivalent to CX66 at the spot rate of 2CX = 1CY on 1 January 20X3.

Cr Cash		CX100
Dr Expenses – restricted	CX100	
Dr Grant receivable	CX66	
Cr Revenue – restricted		CX66

Settlement of grant receivable
When the expenditure is due to be reimbursed, the spot rate is 2.5CX = 1CX. Since the grant receivable is denominated as CY33, X revalues the receivable to CX83 and recognises an exchange gain of CX17.

Dr Grant receivable	CX17	
Cr Foreign exchange gain		CX17

The settlement of the grant clears the grant receivable balance after revaluation.

Dr Cash	CX83	
Cr Grant receivable		CX83

Movement between reserves
The transactions result in a deficit of CX34 in restricted income, which must be funded from unrestricted income.

Dr Funds without restrictions	CX34	
Cr Funds with restrictions		CX34

After recording all the transactions, the impact on X's primary statements is as follows:

	Restricted CX	**Unrestricted CX**	**Total CX**
Statement of income and expenses			
Revenue	66		66
Expenses	(100)		(100)
Operating surplus/(deficit)	(34)		(34)
Foreign exchange gain/(loss)	0	17	17
Surplus/(deficit)	(34)	17	(17)
Statement of changes in net assets			
Surplus/(deficit)	(34)	17	(17)
Movement between reserves	34	(34)	0
Closing balance	0	(17)	(17)
Statement of financial position			
Cash	0	(17)	(17)

How does expenditure in a third currency impact grant recognition?

IG30.9 NPOs may incur grant related expenditure in other currencies, as well as their own functional currency. Grant related transactions in foreign currency are recorded as set out in Section 30, similar to any other foreign currency transactions. The method the donor uses to measure grant related expenditure in a third currency will probably be defined in the grant agreement and may vary between agreements. The impact of one possible approach is shown in the following example.

Example 4
On 1 January 20X3, NPO X receives a grant of CY50 from donor Y, when the exchange rate is 2CX = 1CY and 2CZ = 1CX. The functional currency of NPO X is CX. The agreement specifies that grant related expenditure is measured against the grant at the spot rate when the expenditure is incurred.

Recognition of grant receipt as a binding grant arrangement obligation (BGA obligation)

Dr Cash	CX100	
Cr BGA obligation		CX100

Recognition of grant expenditure
Subsequently on 1 June 20X3, NPO X incurs grant related expenditure of CX50 and CZ100. This would have been equivalent to CY50, at the exchange rates when NPO X received the grant. However, on 1 June 20X3, the spot exchange rates are 2.5CX = 1CY and 1.75CZ = 1CZ.

As in example 1 b) above, the binding grant arrangement obligation is revalued to the spot rate when the expenditure is incurred, as the binding grant arrangement obligation is denominated in CY.

Dr Foreign exchange loss	CX25	
Cr BGA obligation		CX25

Translating expenditure of CZ100 at the spot rate, NPO X recognises grant related expenditure of CX57. In addition, NPO X records expenditure of CX50 incurred in NPO X's functional currency. The related grant revenue is recognised at the same time

Dr Expenses – restricted	CX107	
Cr Cash		CX107
Dr BGA obligation	CX107	
Cr Revenue – restricted		CX100
Cr Revenue – unrestricted		CX7

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The additional revenue of CX7 is recognised as unrestricted as it exceeds the value of the grant received by NPO X, measured at the spot rate on the date of settlement.

Clearing additional binding grant arrangement obligation arising due to change in exchange rate
NPO X has an obligation to spend a further CX18, being the remaining balance of the binding grant arrangement obligation. As a result, NPO X incurs a further CX18 of expenditure at the same spot exchange rate.

Dr Expenses – restricted	CX18	
Cr Cash		CX18
Dr BGA obligation	CX18	
Cr Revenue – unrestricted		CX18

As above, the additional revenue of CX18 is recognised as unrestricted.

From the perspective of donor Y, NPO X has incurred grant related expenditure of CY50, being CX68 measured at the spot rate of 2.5CX = 1CY and CZ100 measured at the spot rate of 4.375CZ = 1CY.

Movement between reserves
The transactions result in a deficit of CX18 in restricted income, which must be funded from unrestricted income.

Dr Funds without restrictions	CX18	
Cr Funds with restrictions		CX18

After recording all the transactions, the impact on X's primary statements is as follows:

	Restricted CX	**Unrestricted CX**	**Total CX**
Statement of income and expenses			
Revenue	107	18	125
Expenses	(125)	0	(125)
Operating surplus/(deficit)	(18)	18	0
Foreign exchange gain/(loss)	0	(25)	(25)
Surplus/(deficit)	(18)	(7)	(25)
Statement of changes in net assets			
Surplus/(deficit)	(18)	(7)	(25)
Movement between reserves	18	(18)	0
Closing balance	0	(25)	(25)

Statement of financial position			
Cash	0	(25)	(25)

How are financial statements presented in a currency which is different to the functional currency?

IG30.10 The presentation of financial statements in a currency other than its functional currency is permitted by G30.17 and the method for presenting is described in G30.18-G30.20.

IG30.11 It should be noted that using a presentation currency does not remove any foreign exchange gains or losses that would be recognised in the financial statements if they were presented in the NPO's functional currency. Any existing foreign exchange gains or losses will also be translated into the presentation currency and remain unchanged other than for the effect of translation.

IG30.12 It should also be noted that use of a presentation currency will result in a new exchange difference, arising from the translation of the income and expenses, and opening net assets, as described in G30.20. This is not a realised gain or loss, as it only arises from the translation of the financial statements to the presentation currency. Unlike transaction gains and losses, this translation item is separately presented in the statement of changes in net assets.

IG30.13 One potential reason for using a different presentation currency to prepare financial statements may be to satisfy the requirement of provider of funding such as a donor or grantor. The purpose may be to permit the provider of funding to identify the amount of expenditure incurred, and the funding provided, in the currency in which the funding was denominated

How are funding differences arising from exchange rate factors disclosed?

IG30.14 Some agreements for grants, donations or similar income may specify an exchange rate to be applied to calculate how much expenditure for reimbursement has been incurred. The use of a specific exchange rate may give rise to a funding shortfall, or surplus, compared to the expenditure. If the funding is restricted, the treatment of any shortfall or surplus will depend upon the terms of the funding agreement. Any funding shortfall may need to be met from unrestricted funds, if the shortfall arises from exchange rate measurement bases defined in the agreement. If there is a funding surplus, the agreement may specify how the surplus should be treated. The accounting for the surplus should follow the terms of the agreement. In the absence of any specific terms relating to the surplus, either written or implied, the surplus may be transferred to unrestricted funds.

IG30.15 As described in AG30.11, exchange differences arising from restricted funds, shall be separately recognised from other exchange rate differences.

IG30.16 As described in G4.14 the nature and purpose of any material restricted funds should be disclosed in the notes to the financial statements, including any exchange rate requirement that may have a material impact on the fund.

IG30.17 Where a shortfall or surplus arises in a fund relating to exchange rates, and the movement in the fund is disclosed in the financial statement, as described in G4.14, details of the exchange rate impact on the shortfall or surplus arising should be explained.