



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG06 - 06
25 February 2025 – Online

Section 30 Foreign Currency Translation – Final Guidance

Summary	This paper provides TAG Members with the amendments to the final guidance for Section 30 Foreign Currency Translation. It also includes an analysis of the remaining SMC included in ED3 for lack of exchangeability (included in the March 2024 Addendum to the IFRS for SMEs Accounting Standard).
Purpose/objective of the paper	The paper provides the approach to the proposed amendments to Section 30, the Implementation Guidance and the Basis for Conclusions following TAG's advice at its September 2025 meeting. It seeks TAG's views on the amendments required to finalise the guidance.
Other supporting items	TAGFG03-05; TAGFG03-10
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Actions for this meeting	Advise on: The proposed approaches for: <ul style="list-style-type: none">i. The disclosure of exchange gains and losses that contribute to a surplus or deficit on a grant agreement.ii. The treatment of monetary and non-monetary items in grant agreements.iii. The treatment of refunds resulting from exchange gains.iv. Onerous grant agreements arising for foreign exchange differences.v. The lack of exchangeability.

Technical Advisory Group

Foreign Currency Translation - Response to ED2

1. Introduction

- 1.1 This paper provides:
- amendments to Section 30 *Foreign Currency Translation*, Implementation Guidance and the Basis for Conclusions following TAG member's advice at its September 2024 meeting – see TAGFG06-06 Annex;
 - an analysis of the remaining SMC included in ED3 for lack of exchangeability (included in the March 2024 Addendum to the IFRS for SMEs Accounting Standard);
 - tables of concordance that map the changes to Section 30 and the associated Implementation Guidance – see Appendices A and B respectively.

2. Background

- 2.1 At its 26 September 2024 meeting TAG considered the feedback from responses to ED2 for Section 30. TAG deliberated on the report containing the responses to the SMCs for ED2 and the approach to the drafting suggestions to Authoritative Guidance and the Implementation Guidance. Amendments to the draft final guidance are included in a separate Annex to this paper.
- 2.2 Foreign currency translation was included latterly as a topic for review following the 2021 consultation paper. However, decisions were made not to make substantial amendments for recognition and measurement specifications in Section 30. The Application Guidance has therefore been retained separately from the core text (though a small number of paragraphs have either been deleted or moved to the Implementation Guidance – these are highlighted in the report) and the tables in the Appendices.
- 2.3 Exposure Draft 3 (ED3) included additional text proposed in the Addendum to the draft third edition of the *IFRS for SMEs Accounting Standard* issued by the International Accounting Standards Board on 28 March 2024 relating to lack of exchangeability. The Annex to this report includes the relevant amendments included in ED3 in purple font to distinguish these paragraphs from the original text in ED2. Note the cross references in this section have been changed from ED3 because of the editing process to the Application Guidance paragraphs but they are not marked as tracked changes.

3. Setting the functional currency

- 3.1 At its September 2024 meeting TAG members debated whether grants and donations should be a factor when setting the functional currency. This followed comments by respondents, where seventy-seven percent of respondents to the SMC agreed that grants and donations should be considered when setting the functional currency, but some were of the view that it should not be considered.
- 3.2 TAG members noted that grants and donations was just one factor for consideration when establishing a functional currency. The two other primary factors originate from the *IFRS for SMEs* Accounting Standard. TAG members supported its continued inclusion, however, the Secretariat has made reordered the factors in paragraph G30.3 so that grants and donations are the final consideration. Consequential amendments have also been made to AG30.5 and made similar changes to the Implementation Guidance.
- 3.3 More generally, TAG also requested that consideration be given to additional guidance regarding the factors to consider in determining the functional currency. Amendments have also been made to ensure that the Application Guidance in paragraphs AG30.4–AG30.11 is consistent with the core text (G30.3–G30.5). This includes the amendments made for factors relating to determining the functional currency of a foreign operation. Paragraphs have been removed from this section of the Application Guidance to avoid duplication.
- 3.4 Further guidance is also available in the Implementation Guidance paragraphs IG30.1–IG30.6. The Secretariat considers that combined with the Application Guidance there is substantial guidance on the application of the factors for the functional currency and does not propose that further guidance or exemplification is added at this stage. This should be kept under review as further experience is gained through application of INPAG.

Question 1: Do TAG Members consider that there is sufficient guidance on the application of the factors included in Section 30 relating to decisions on an NPO's functional currency?

4. Exchange gains and losses that contribute to a surplus or deficit on a grant agreement

- 4.1 Ninety-one percent of respondents agreed with the proposal to require disclosure of exchange gains and losses that contribute to a surplus or deficit on a grant agreement that is presented as part of restricted funds. The Secretariat, however, agreed with a respondent's suggestion that a more proportionate approach be used for reporting the financial results for different grant agreements. This was particularly because since ED2 was published Section 36 *Fund accounting* and the

INPAG Practice Guide, *Supplementary statements for donor reporting* has been developed.

- 4.2 Section 36 has introduced new disclosure requirements about restricted funds that includes provision of information about foreign exchange gains and losses which the Secretariat considers has superseded the proposals in Section 30.
- 4.3 The Secretariat has therefore removed the requirements from paragraph G30.30 (now G30.31) and instead paragraph G30.31 cross refers to Section 36 and the need for foreign exchange gains or losses to be disclosed as a part of the reporting requirements for fund accounting. This would have the effect of removing the requirement for cumulative amounts of foreign exchange gains and losses to be shown, but this could be calculated from published accounts or presented as additional information by an NPO if they believe it would be useful for the users of its financial statements.

Question 2: Do TAG Members agree with the approach to reporting foreign exchange gains or losses (and the financial results grant agreements) should be included in Section 36 (see paragraph G30.31)?

5. Foreign currency translation and grant agreements

- 5.1 The Secretariat has made amendments to the Application Guidance for the following issues.

Grant Arrangement Liabilities/Delivery Obligation Liabilities – Monetary/Non-Monetary Items Transactions and Refunds

- 5.2 The Basis for Conclusions argued that delivery obligations (described in ED2 as grant arrangement liabilities) are non-monetary items because no future cash flow is expected to settle these liabilities. However, the Secretariat is of the view that this is a complex issue.
- 5.3 Where there is no further right to receive or obligation to deliver a fixed or determinable number of units of currency to settle these liabilities these would not be monetary items as there are no further cash flows to meet the liability. However, for example, where these transactions might be subject to refund and the amount of the settlement is dependent on foreign exchange movements then these will be monetary items.
- 5.4 The Application Guidance, and the Implementation Guidance have been amended to clarify that where there are no further transactions relating to their settlement, delivery obligation liabilities and prepayment assets are non-monetary items. The Secretariat is of the view that there would not be other circumstances where delivery obligation liabilities or prepayment assets affect the decision on whether these assets and liabilities are largely non-monetary items.

- 5.5 The Secretariat has also included more description on monetary and non-monetary items in paragraphs AG30.12 and AG30.16 to assist with decisions in this area.
- 5.6 The Secretariat is also of the view that there is a second issue relating to the settlement of a delivery obligation liability from the Exposure Draft provisions at (ED2) paragraph AG30.19 needs further consideration.
- 5.7 A respondent commented that paragraph AG30.19 was not required because a change in the 'transaction price' due to exchange rates would be accounted for as 'variable consideration' under Section 23. TAG members requested that views be sought on this. An IASB staff paper indicated the variable consideration requirements in IFRS 15 do not apply in these circumstances because the amount of consideration in the foreign currency is fixed.
- 5.8 The Secretariat considers that the respondent might have been considering the impact of a right to refund on the transaction amount recognised. It agrees that to an extent this will be addressed by the requirements in Section 23 Part I *Revenue from grants and donations* and that additional prescription is not required.
- 5.9 Paragraph AG30.19 proposed that where a change in exchange rates leads to the refund of revenue from a grant that this would be a reduction in revenue. The Secretariat sees that there is an argument that instead this is a separate transaction that would result in a new expense and a liability. This would arise if there is an outstanding delivery obligation liability, which would need to be remeasured, and a new transaction required to reflect the refund. The Secretariat has made relevant amendments to paragraph AG30.19 (now paragraph AG30.20) to reflect this approach. Similar amendments have been made to Example 3 of the illustrative examples in the Implementation Guidance to reflect the creation of the separate liability for the refund.
- 5.10 The Secretariat has also made amendments to paragraph AG30.20 and AG30.21 of ED 2. Paragraph AG30.20 described the treatment of transactions in grant agreements with delivery obligations where all of the grant is required to be spent and where there have been favourable movements in exchange rates. The Secretariat is of the view that this paragraph is not authoritative as it describes the outcomes of a particular set of circumstances. Consequently, the Secretariat has moved this paragraph to Implementation Guidance (see paragraph IG30.12).
- 5.11 Paragraph AG30.21, which specified that any exchange gains and losses to the extent these are not "offset" by other movements will be transferred to/from unrestricted funds, has been removed. The Secretariat is of the view that the treatment of such movements is addressed by paragraph IG30.13 and more generally by Section 36 and that this accounting outcome is not specific to foreign exchange gains and losses.

Question 3: Do TAG Members consider that there might be other circumstances where transactions relating to the settlement of delivery obligation liabilities or prepayment assets might be monetary items?

Question 4: Do TAG Members agree with the proposed changes for the treatment of monetary and non-monetary items relating to refunds arising from exchange gains in grant agreements (see paragraphs AG30.12-AG30.20 including the relocated paragraph AG30.20 and the removal of AG30.21)?

Onerous contracts/onerous grant agreements

- 5.12 At the September 2024 meeting TAG members debated whether there would be an onerous contract arising from exchange rate gains or losses in grant agreements. The Secretariat remains of the view that a grant agreement becomes onerous where there is a new obligation arising as a result of exchange rate differences. The Secretariat has changed references in this paragraph from “onerous contracts” to “onerous grant agreements” to be consistent with Section 21 *Provisions and contingencies*.
- 5.13 TAG members’ advice was to add further Implementation Guidance and/or create an illustrative example to explain when an exchange rate movement could result in an onerous contract. TAG was concerned that the approach should not be “hardwired” into the guidance.
- 5.14 The Secretariat has therefore included a new paragraph at AG30.21 which proposes that where an additional obligation is created because of exchange rate changes that the NPO is required to consider whether this obligation is onerous and meets the definition of an onerous grant agreement consistent with the approach in Section 21. It does not prescribe a particular treatment. The Secretariat proposes cross referring to the illustrative example in Section 21 Implementation guidance where there is an example of an onerous grant agreement (see Example 3).

Question 5: Do TAG Members agree with the approach to guidance and terminology for onerous grant agreements in Section 30?

6. Lack of Exchangeability – IASB Amendments in March 2024

- 6.1 TAG Members will be aware that Exposure Draft 3 (ED3) included amendments to Section 30 on lack of exchangeability. Ninety-seven percent of respondents agreed with SMC 11(b) that the guidance on lack of exchangeability is useful and relevant to NPOs. Three percent of respondents disagreed. Twenty-five respondents did not respond to this SMC. See Appendix C.

- 6.2 Respondents were of the view that the guidance would ensure consistency among NPOs and with other entities using IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard. They considered that the new guidance was crucial for NPOs operating in regions in restricted currency markets with comments indicating that it was important for regions in conflict and challenging environments. A respondent indicated that the amendments were important in their jurisdiction. Another respondent noted that the guidance is flexible, allowing for the use of an observable exchange rate or other estimation techniques.
- 6.3 A respondent was of the view that the guidance was not clear whether the use of informal markets should be considered. Another respondent commented that the advice on identifying the problem is comprehensive but the guidance on resolving it by estimation is minimalistic (see paragraph AG30.42). Assuming that unofficial exchange rates are not acceptable foreign currency conversions may prove hard to estimate and a separate workshop with affected NPOs to talk about the solutions that they found to this problem might help broaden this helpful guidance.
- 6.4 The Secretariat is of the view that the approach to the guidance sets out the forms of market which can be considered against the objective in paragraph G30.5A (now G30.6). If that rate meets the estimation objective – i.e. the rate reflects that at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.
- 6.5 The markets used must meet the objective and the other requirements in the Application Guidance. For example, in making the assessment, an NPO must only consider markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations. The Secretariat would not suggest amending the current IASB guidance particularly, as this part of the guidance for the topic has not been subject to review as it relates to measurement. However, the Secretariat agrees with the second respondent in paragraph 6.3 that educational materials or other outreach resources for affected NPOs could be developed.
- 6.6 A few respondents were of the view that more examples or illustrations could be included. The Secretariat is of the view that there is extensive Application Guidance included in this amendment to the *IFRS for SMEs* Accounting Standard and does not consider that more examples would be useful without extensive review of the circumstances which might occur for NPOs.
- 6.7 A respondent commented that they did not expect there to be a need for NPO-specific guidance in relation to lack of exchangeability, and INPAG should follow the foundational framework after the IASB has finalised the requirements of the *IFRS for SMEs* Accounting Standard. The Secretariat concurs that INPAG should continue to follow the foundational framework.
- 6.8 The respondent that disagreed said that such transactions are extremely unlikely to happen for NPOs in their jurisdiction NPOs are only allowed to receive funds in their

national currency, in cash, or through bank transfers, in which case, the bank accounts to be opened are in limited currencies which are all convertible. The Secretariat notes this response but the strength of support for this SMC indicates that the amendments in the addendum should be made.

7. Basis for Conclusions

- 7.1 The Basis for Conclusions has been updated to confirm agreement with the proposals in the SMCs, to summarise the significant issues raised and decisions taken in response to the SMCs in EDs 2 and 3. It has therefore been amended to include confirmation of the issues reported at TAG's September meeting including that:
- the approach to reporting exchange gains and losses on funds with restrictions will be reported in accordance with Section 36;
 - that delivery obligation liabilities and prepayment assets are not monetary items, unless there are events which might impact on their settlement, for example, refunds for exchange rate gains;
 - the treatment of delivery obligation liabilities where there are refunds; and
 - the reporting of transactions where additional obligations arise as a result of exchange rate gains or losses which create onerous grant agreements must be reported in accordance with Section 21.

8. Next steps

- 8.1 Subject to the comments made by TAG members in response to this paper, the Secretariat intends to treat the drafts shared alongside this paper as final.
- 8.2 TAG members will next see the updated paragraphs in the full draft of the document that is planned to be circulated in April 2025. This draft will be used to collect final feedback ahead of the version that will be put forward for approval on 3 June 2025.

February 2025



Appendix A Amendments to Section 30 Foreign Currency Translation

Paragraph Number	Secretariat Response
	<i>Note across Section 30 references to “funds with restrictions” have been changed to “restricted funds” and “funds without restrictions” to “unrestricted funds” consistent with feedback from ED 1 to be considered by the TAG in March.</i>
G30.7	Change “enforceable grant arrangement” and “other funding arrangement” to grant to “grant agreements”.
G30.13	“Exchange rate exchange gains or losses” changed to “foreign exchange gains or losses” and “will” changed to “shall”.
G30.31	Disclosures on reporting gain or loss within the period and cumulative report deleted. Replaced with cross reference to Section 36 <i>Fund accounting</i> . Change in terminology consistent with Section 23 Part I <i>Accounting for grants and donations</i> and Section 24 Part I <i>Expenses on grants and donations</i> .
AG30.1	Minor edit.
AG30.3	Changes to reflect that currency presentation may be a required outside of the specifications of INPAG. Alignment of terminology for presentation currency (edits to second sentence).
AG30.4	Drafting augmentations for clarity.
AG30.5	Drafting augmentations for clarity and consistency with core text.
AG30.6	Drafting augmentations for clarity and consistency with core text and reordering of factors to avoid overemphasising value of grants and donations (both received and paid) in decisions on functional currency.
AG30.8	Drafting augmentations for clarity and consistency with core text.
Original AG30.9	Deleted overlaps with AG30.8.
AG30.9	Deletion of first sentence (text combined with second sentence).
AG30.10	Edits to be consistent with core text.
AG30.11	Moved original AG30.10.
AG30.12	Drafting augmentations for clarity, changed “should” to “shall”. Added a description of monetary items (from IAS 23 <i>The Effects of Changes in Foreign Exchange Rates</i>).
AG30.13	Added “shall” to reinforce that the requirements for the presentation of exchange differences.



Paragraph Number	Secretariat Response
AG30.14	Drafting augmentations for clarity. Added “separately” to clarify that the provisions relate to measurement of exchange gains or losses for a grant agreement where grant revenue is held in a pooled account. Change terminology for grant transactions to be consistent with sections 23 and 24 Part I.
AG30.15	Drafting augmentations for clarity, added description of non-monetary items.
AG30.16	Edited sentence (in accordance with respondent’s suggestion to ensure consistency with paragraph G30.11(c)). Added “items” to “property, plant and equipment”.
AG30.17 and AG30.18	Added clarifications confirming that largely prepayment assets and delivery obligation liabilities are non-monetary items unless they are subject to settlement events such as refunds.
AG30.19	Confirmation where there is a further settlement event relating to, for example a delivery obligation liability, such as a refund transaction, this transaction is a monetary item until the amount of revenue to be recognised is settled.
Original AG30.18	Deleted - new paragraph on onerous grant agreements at paragraph AG30.21
AG30.20	Added commentary that translation gains and losses for grant agreements need to consider the substance of the transaction. Confirmation where there is a refund that this is a separate transaction and where this impacts on delivery obligation liabilities, the liability will need to be remeasured.
AG30.21	Confirmation that where an NPO exchange rate differences give rise to additional obligations an NPO must consider whether there is an onerous grant agreement. Where these exist the expense and obligation must be reported in accordance with Section 21 and the original grant.
Original AG30.20	Moved to IG30.12 as a commentary on the transaction rather than establishing accounting principles.
Original AG30.21	Deleted as covered in IG30.13 and Section 36.
AG30.22	Drafting augmentations for clarity. Deletion of last sentence as it is not clear what its purpose is. New sentence to indicate that the reporting of foreign currency is addressed in the INPAG Practice Guide – <i>Supplementary Statements</i> .
AG30.41	“Grant arrangement” changed to grant agreement. Reference to fund movements now in accordance with Section 36 (see discussion in main body of report).



Appendix B

Amendments to Section 30 Implementation Guidance

Paragraph Number	Secretariat Response
<i>Note across Section 30 references to “funds with restrictions” have been changed to “restricted funds” and “funds without restrictions” to “unrestricted funds” consistent with feedback from ED 1 to be considered by the TAG in March.</i>	
Section heading above IG30.1	New heading and added question in line with Implementation Guidance approach.
IG30.2	Changed “identified” to “determined” added “paragraph” to cross reference.
IG30.3	Drafting augmentations to reorder factors to avoid overemphasising grant agreement transactions in decisions on functional currency.
IG30.4	Drafting augmentations to reorder factors to avoid overemphasising grant agreement transactions in decisions on functional currency. Added “paragraph” to cross reference.
IG30.5	Added cross reference. Change from “would still” to “may”. Also added commentary though that Section 30 gives priority to the primary factors in paragraph G30.3.
Section heading above IG30.7 and IG30.9	New heading and added question in line with Implementation Guidance approach.
Paragraph IG30.12 – IG30.15	Moved to IG30.9 to IG30.15 with some restructuring of paragraphs including moved Application Guidance (original AG30.20 moved to IG30.12).
IG30.17 (was IG30.10)	Added “paragraph” to cross reference.
Section heading above IG30.12	Changed to question in line with Implementation Guidance approach.
IG30.19 (was IG30.9)	Drafting augmentations for clarity and terminology changes to be consistent with Section 23 Part I Accounting for grants and donations and Section 24 Part I Expenses on grants and donations.
IG30.10 (was IG30.13)	Drafting augmentations for clarity and terminology changes to be consistent with Section 23 Part I and Section 24 Part I. Change from “value to “amount”.
IG30.11 (was IG30.14)	<ul style="list-style-type: none"> • Replaced “this” with “exchange rate gains”, change terminology to be consistent with Section 23 Part I and Section 24 Part I. • Add “might mean that” to indicate the level of certainty.



Paragraph Number	Secretariat Response
	<ul style="list-style-type: none"> Additional commentary to confirm that the grantor or other donor may specify that any surpluses or underspends that arise as a result of exchange gains are to be returned to them.
IG30.15 (was IG30.13)	Changes in terminology to be consistent with Section 23 Part I and Section 24 Part I and clarify that the impact on the reported results may occur over multiple reporting periods.
IG30.13 (was IG30.16)	Add terms to indicate that outcomes are less certain. Changes of terminology to be consistent with Section 23 Part I and Section 24 Part I.
IG30.14	Changes in terminology to be consistent with Section 23 Part I and Section 24 Part I.
IG30.15	Drafting augmentations for clarity [awaiting commentary for cross reference to Section 36].
Illustrative Examples	New introductory section consistent with other sections and to include a cross reference to the Example in Section 21 on onerous grant agreements.
All illustrative examples	<ul style="list-style-type: none"> Journal entries accompanied with relevant journal narration to explain the transaction. Sub-headings added for “Background” and “Analysis”. Changes in terminology consistent with Section 23 Part I and Section 24 Part I. Removal of references to donor transactions to simplify and focus on the most relevant transactions. Confirmation that funds are treated as funds with restrictions in accordance with Section 36. Change term to movements between funds from reserves.
<i>Redrafting summary comments</i>	
Example 1	<ul style="list-style-type: none"> Added commentary that the financial statements extract summarise all cash movements. Confirmation that the expenses are grant related expenses and that the decisions for the NPO are based on the terms of the grant agreement. Clarifications over recognition decisions. Drafting augmentations for clarity. Clarification of treatment for alternative exchange rate. Summary of treatment where grant agreements spend include a requirement to spend all the grant revenue.
Example 2	<ul style="list-style-type: none"> Changes of terminology to be consistent with Section 30. Drafting augmentations for clarity.
Example 3	<ul style="list-style-type: none"> Changes of terminology to be consistent with Section 30.



Paragraph Number	Secretariat Response
	<ul style="list-style-type: none">• Confirmation that the expenses are grant related expenses and that the decisions for the NPO are based on the terms of the grant agreement.• Correction for the treatment of refunds (see body of main report).• Added commentary that the financial statements extract summarise all cash movements.
Example 4	<ul style="list-style-type: none">• Added journal entry to recognise grant revenue.



Appendix C

Summary of Feedback Responses to SMCs Lack of Exchangeability

SMC11(b) Do you agree that the guidance on lack of exchangeability is useful and relevant to NPOs. If not, what would you change and why?	Response	Number	% of those who responded
	Agree	37	97%
	Disagree	1	3%
	Neither agree nor disagree	-	-
	No Response	25	-
		63	100%