INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group
Issue Paper

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Foreign Currency Translation – Response to ED2

Summary	This paper provides a summary and high level analysis of the consultation responses to the Specific Matters for Comment (SMCs) relating to Section 30 *Foreign Currency Translation* and sets out initial approaches and responses from the Secretariat.
Purpose/objective of the paper	The purpose of this paper is to provide a detailed analysis of the responses to the SMCs on ED2 of Section 30. It seeks the views of TAG members on suggested approaches to the final guidance based on respondents' views and feedback on specific proposals.
Other supporting items	N/A
Prepared by	Sarah Sheen
Actions for this meeting	**<u>Advise on</u>**: i. including grants and donations in the assessment of the functional currency ii. reporting exchange gains and losses in funds without restrictions iii. reporting the outcomes of exchange gains and losses on grants iv. whether an increased EGO or a new obligation will result in an onerous contract.

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Foreign Currency Translation - Response to ED2

1. Introduction

1.1 This paper:

- provides a summary and high level analysis of the consultation responses to the Specific Matters for Comment (SMCs) relating to Section 30 *Foreign Currency Translation* – see Annex A
- sets out initial approaches and responses from the Secretariat
- seeks TAG members' advice on the issues raised in the feedback.

2. Background

2.1 TAG members will be aware that some respondents to the 2021 consultation papers indicated that foreign currency transactions should be prioritised, while others considered that they should be removed from the long list. Foreign currency translation was frequently raised in outreach on the Consultation Paper as a significant issue.

2.2 After discussion at the PAG and TAG, the Secretariat agreed to add foreign currency translation to the short list for Phase 1. In those discussions the view at the time was that foreign currency transactions do not present recognition and measurement issues, but the discussions acknowledged the possibility of wider issues.

2.3 Section 30 *Foreign currency translation* is based on the equivalent section in the *IFRS for SMEs* Accounting Standard but with additional interpretation for NPO circumstances. It covers the following topics:

- functional currency – where the NPO's functional currency is the currency of the primary economic environment in which the NPO operates;
- reporting foreign currency transactions in the functional currency – including initial recognition and reporting at the end of the subsequent reporting periods;
- change in functional currency;
- use of a presentation currency other than the functional currency.

2.4 While the recognition and measurement of foreign currency is not an NPO-specific issue, its presentation and disclosure, particularly for foreign currency gains and losses associated with grant funding is a significant issue.

2.5 Exposure Draft 2 included additional guidance, for example, on grant arrangements for the treatment of foreign currency translation. It also contained additional application guidance, in the following areas:

- payments made in advance by grant providers;

- the impact of increases in grant obligations due to changes in exchange rates; and
- circumstances where donors and funders may require the NPO to spend all the money it received under that enforceable grant arrangement (where foreign currency exchange gains and losses impact on this).

2.6 Following the discussion about the positioning of application guidance at the TAG meeting in July 2024, the final drafting will integrate the additional guidance either into the core guidance or the Implementation Guidance.

3. Grants and donations used in setting the functional currency

3.1 Seventy-seven percent (twenty-seven respondents) agreed with SMC 10a) that NPOs should consider grants and donations when setting the functional currency. Eleven percent (four respondents) disagreed and nine percent (three respondents) indicated that they neither agreed nor disagreed. Thirteen respondents provided no response to this SMC.

3.2 The respondents that agreed that NPOs should consider grants and donations when setting the functional currency commented that:

- grants and donations are one of the most important factors an NPO considers in determining its functional currency;
- they are a large part of an NPO's income, influencing how it operates and manages its funds. Considering the currency of these funds ensures the financial statements accurately reflect the NPO's economic situation;
- grants and donations are the bulk of an NPO’s revenue, and this drives the expenditure cycle;
- while a donor may use a different currency, a recipient NPO would be able to consider its functional currency in terms of its total operations.

3.3 Another respondent commented the currency should be determined by the local currency of each party. They argued that this is because NPOs report to the government of the host country first before grants are awarded.

3.4 A further respondent commented that the proposals for the concept of functional currency for this sector were strictly linked to the currency of the economy in which the subsidised entity makes the contribution to carry out its main objective of incorporation. The respondent commented that this can cause complications if, for example, NPOs receive contributions from different jurisdictions. Their view was that the execution (the use) of the resource is more important than its reception (where it comes from). A respondent that neither agreed nor disagreed echoed this view. This respondent suggested reverting to the *IFRS for SMEs* Accounting Standard for this part.

3.5 A respondent that disagreed commented that even if all the funding is one currency and the spending is in another, it is the spending currency that should be the functional currency. However, INPAG should consider the impact of hyperinflation in the decision. Section 31 of INPAG provides guidance on hyperinflation and the Secretariat is of the view that this is sufficient.

3.6 The Secretariat agrees with the views set out in paragraph 3.2 above. This is consistent with the approach in IPSAS 4 *The Effects of Changes in Foreign Exchange Rates,* which includes grants as a factor in determining functional currency. International standards are clear that functional currency determination is dependent on where an entity generates **or** expends resources. As a consequence, the Secretariat does not propose making changes to the draft text in Section 30 for functional currency factors.

3.7 One of the respondents that agreed commented on the importance of the examples presented in the explanatory videos that supported the publication of the Exposure Draft. Most of these examples are already in the Implementation Guidance, although these were simplified for the purposes of the videos. The Secretariat will revisit the videos to consider whether any further exemplification is necessary.

Question 1: Do TAG members agree that Section 30 should retain the proposed approach to functional currency included in ED2?

4. Presentation of exchange gains and losses on funds both with and without restrictions

4.1 Ninety-four percent (thirty respondents) of those that responded to this SMC agreed with the principle that Section 30 shows exchange gains and losses as part of funds without restrictions unless they relate to a transaction that is shown as restricted. Three percent (one respondent) disagreed though there were no substantial dissenting views – only a commentary that the respondent did not agree with fund accounting. Three percent (one respondent) neither agreed nor disagreed. Fifteen respondents did not answer this question.

4.2 The respondents that agreed commented that this would improve the clarity of the financial statements, and it would improve presentation making it easy to identify the resources that are and are not restricted to specific purposes.

4.3 A respondent commented that the presentation of exchange rate gains or losses should be consistent with the presentation of the item to which the gain or loss relates. They stated that taking this approach for fund accounting would be equivalent to the requirement in paragraph 30.11 of the *IFRS for SMEs* Accounting Standard for exchange components of gains and losses. This requires them to be presented in the same statement as the gain or loss itself. This respondent further commented that if INPAG proceeded with plans for 'funds with restrictions' and 'funds without restrictions' to be components of 'net assets' alongside other elements then there could be exchange rate gains or losses that are attributable to those other elements.

4.4 A respondent commented that NPOs should report these [exchange gains and losses] in a different line to allow users to reconcile the different donors or different project audit reports with NPO one. The Secretariat understands this comment but is of the view that where there are numerous donors or funders this could be burdensome and obscure key messages relating to foreign currency translation. The proposals included in INPAG Practice Statement 1 *Supplementary Statements* are likely to address this issue as it includes relevant lines for foreign exchange gains and losses.

4.5 There were no substantial comments on the SMC. This suggests that respondents were content with the proposals. The Secretariat is therefore not proposing any further change.

Question 2: Do TAG members have any further comments on the principle that exchange gains and losses are shown as part of funds without restrictions unless they relate to a transaction that is to be shown as restricted?

5. Exchange gains and losses that contribute to a surplus or deficit on a grant arrangement

5.1 Ninety-one percent (twenty-nine) respondents agreed with the proposal to require disclosure of exchange gains and losses that contribute to a surplus or deficit on a grant arrangements that is presented as part of funds with restrictions. Nine percent (three respondents) disagreed. Fifteen respondents did not answer this question.

5.2 A respondent that agreed with the proposal commented that it enhances transparency and accountability, allowing stakeholders to assess how currency fluctuations impact specific grant projects or activities. This could influence future funding decisions and grant management strategies. Another respondent commented that they agreed where the amounts are material to a particular fund.

5.3 One respondent that agreed indicated that this was subject to the reports being grouped with the corresponding grant agreement or by donor (in case there are several grant agreements signed with a single donor).

5.4 A respondent that disagreed indicated that any exchange rate gain or loss on an individual grant arrangement would contribute in some way to a deficit or surplus on that arrangement, and so would require disclosure under paragraph G30.30. The respondent suggested that a more proportionate approach might be that Section 30:

- instead includes details of the gain or loss in the period as a line item in the reconciliation of the line items and carrying amounts of net assets; and
- includes the cumulative amount of exchange rate gains and losses as a part the analysis of net assets showing separately material individual reserves or funds.

Alternatively, the respondent suggested that the disclosure requirements of fund accounting could provide a location for the disclosure requirements.

5.5 The respondent continued that this would allow an NPO to use the materiality concepts embedded in those disclosures eg including material sub-components of net assets. This would mean an NPO might aggregate exchange gains and losses that contribute to surpluses or deficits on grant arrangements together, rather than disclosing exchange rates gains and losses on every grant arrangement individually.

5.6 Another respondent that disagreed indicated that NPOs report financials in local currencies and the income would include the exchange rate amount. Whether it is a gain/loss and/or a surplus to the organisation as per the arrangement with the grantor is something that is settled between the grantor and the grantee.

5.7 The Basis for Conclusions currently comments that the requirement to disclose these changes in exchange rates gains or losses separately is intended to provide transparency of exchange rate exposures relating to grant arrangements. This transparency will improve the understanding of the source and use of an NPO's funds, which reflects the concerns raised by respondents to the Consultation Paper. However, the Secretariat recognises that the benefit of this requirement needs to be proportionate to the effort required, particularly for smaller NPOs.

5.8 Since ED2 was published, the section on fund accounting (Section 36) has been developed as well as INPAG Practice Guide 1 – *Supplementary statements*. The Secretariat can see arguments that this information might be more proportionate if NPOs report exchange gains and losses as part of the fund accounting disclosures. As Section 36 has introduced new disclosure requirements about funds with restrictions that includes provision of information about foreign exchange gains and losses, this can be considered to have superseded the proposals in Section 30. The Secretariat is of the view that Section 30 should cross refer to Section 36 *Fund accounting* 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 to be shown, but this could be calculated from published accounts or presented as additional useful information by an NPO.

5.9 INPAG Practice Guide 1 provides guidance on standardised information that NPO's can provide about grant arrangements. The standardised format allows for the effects of foreign currency translations to be shown. While these statements are not mandatory, they provide another mechanism to provide transparency about the impact of foreign currency gains and losses on an individual grant. A cross reference to INPAG Practice Guide 1 could be included in the Basis for Conclusions in Section 30.

5.10 The Secretariat seeks TAG's views on whether the proposed cross references in the Basis for Conclusions would provide sufficient transparency for the users of the financial statements.

Question 3: What are TAG members' views on the proposal to require exchange gains and losses movements only to be included in the disclosures on funds in accordance with Section 36 *Fund accounting,* which effectively removes the requirement for cumulative information?

Question 4: What are TAG members views on the inclusion of a cross reference to INPAG Practice Guide 1 in the Basis for Conclusions to Section 30?

6. Other comments on section 30

6.1 SMC 10 d) sought respondents' comments on Section 30, including whether there are any NPO-specific recognition and measurement issues associated with foreign currency translation. Some of the respondents provided detailed commentary. Annex B includes the analysis of these comments.

6.2 One respondent provided significant comments on the Application Guidance in Section 30, indicating that there was both duplication and instances where concepts were being described using different words. The Secretariat is of the view that the decision to move application guidance into the core text will reduce the risk of duplication and lack of consistency. The Secretariat will review the text to remove any inconsistencies in the concepts or terms used.

Technical comments on Section 30

Views and clarifications on whether grant arrangement liabilities are non-monetary items

6.3 One respondent was of the view that grant arrangement liabilities are monetary items. The Basis for Conclusions argued that they were non-monetary items because no future cash flow is expected to settle these liabilities. The Secretariat remains of the view that these are non-monetary items. It proposes to provide additional clarification in the Basis for Conclusions and/or to the Implementation Guidance to specify why they are non-monetary items (an obligation to deliver a fixed or determinable amounts of units of currency).

Question 5: Do TAG members agree that grant liabilities are largely non-monetary items because for most transactions there is an absence of an obligation to deliver a fixed or determinable number of units of currency?

An increased enforceable grant obligation or a new obligation should be recognised because of changes in exchange rates

6.4 A respondent questioned whether an increased obligation or a new obligation should be recognised because of changes in exchange rates, and whether this always resulted in a contract becoming onerous. Another respondent was of the view that these were increases in grant liabilities. The Basis for Conclusions argues that these arrangements become onerous because the additional expenses incurred met the definition of a present, obligation which was measurable. The Secretariat remains of the view that an arrangement becomes onerous where there is a new obligation. The Secretariat has considered the response and is unclear in what circumstances there would be an increase in a grant liability as opposed to a new obligation. The Secretariat would welcome TAG's views on this distinction.

Question 6: Do TAG members agree that practically there is a distinction between new obligations and increases in grant liabilities? Do TAG members agree that an onerous transaction might occur when there is an increase in a grant liability?

Exchange gains to be returned to the donor

6.5 A respondent raised concerns about whether paragraphs AG30.19 and AG30.20, which describe the treatment of exchange gains in grant agreements are necessary. These paragraphs cover situations where there are refunds and where refunds cannot be made (because of insufficient revenue). They were of the view that these paragraphs were not necessary because a change in the 'transaction price' due to exchange rates would be accounted for as 'variable consideration' under Section 23. The Secretariat agrees that this is the case where there is an EGO. The Secretariat will consider whether this text can be removed. If necessary, the detailed issues arising from these transactions can be included in Implementation Guidance. It may be useful to cross refer to specifications on variable consideration in both sections 23 and 24 in Section 30.

Question 7: What are TAG members' views on whether the changes in the 'transaction price' due to exchange rates are already be accounted for as 'variable consideration' where this is an enforceable grant component?

6.6 Another respondent questioned the consistency in the treatment of exchange gains that are returned to donors as refunds and where they are not, as set out in paragraphs AG30.19 and AG30.20. The Secretariat is open to these paragraphs be deleted but a separate discussion of the treatment of refunds is still necessary. It is possible refunds be covered in the Implementation Guidance, which may need to be supported by a discussion in the Basis for Conclusions.

Question 8: Do TAG members agree that clarification about where exchange gains arise and are returned to donors as refunds and transactions where they are not can be included in Implementation Guidance?

Section 30 - other issues

6.7 Another respondent raised the issue of the impact of the lack of exchangeability where a non-profit organisation operates primarily in a country with indefinite or long-term exchange control. They noted the amendments to IAS 21*The Effects of*

Foreign Exchange Rates[1] (including the need to properly disclose the effects of the lack of exchangeability on grant agreements) issued in August 2023. The Secretariat is of the view that this is addressed by the amendments to Section 30 included in ED 3.

6.8 Respondents also discussed practical considerations relating to the information requirements required to report on transactions with one suggesting that the adjustments required would increase the reporting burden. The respondent suggested that the guidance from the *IFRS for SMEs* Accounting Standard be used. As the amendments made relate predominantly to the presentation and disclosure of exchange gains and losses that were highlighted as a key issue for the sector, the Secretariat is of the view that the principles proposed should be retained. As noted, the Secretariat proposes to consolidate some of the requirements with the text published after ED2. The approach is intended to be proportionate, and the Secretariat will consider this when reviewing the final guidance.

6.9 A respondent also commented on the differences of interpretation of what a functional currency is and the requirements regarding the presentation of financial statements demanded by donors. INPAG Practice Guide 1 can meet such donor requirements. Consequently, the Secretariat considers that this can be addressed through referring to this guidance in the Basis for Conclusions.

6.10 There are also several other minor points made by respondents which are addressed in Annex B. TAG's views are sought on the points and the Secretariat's proposed responses.

Question 9: Do TAG Members have any other views on the additional comments provided and the Secretariat's suggested approaches in relation to Section 30 – see Annex B?

September 2024

[1] Amendments to IAS 21, Lack of Exchangeability, IASB, August 2023.

Annex A Summary of Feedback Responses to SMCs for Grant Expenses

SMC10a) Do you agree that grants and donations should be considered when setting the functional currency? If not, why not?	Response	Number	% of those who responded
	Agree	27	77%
	Disagree	4	11%
	Neither agree nor disagree	3	9%
	No Response	13	-
		47	100%

SMC10b) Do you agree with the principle that exchange gains and losses are shown as part of funds without restrictions unless they relate to a transaction that is to be shown as restricted? If not, why not?	Response	Number	% of those who responded
	Agree	30	94%
	Disagree	1	3%
	Neither agree nor disagree	1	3%
	No Response	15	-
		47	100%

SMC10c) Do you agree with the proposal to require exchange gains and losses that contribute to a surplus or deficit on grant arrangements presented as funds with restrictions to be disclosed? If not, why not? What would you propose instead?	**Response**	**Number**	**% of those who responded**
	Agree	29	91%
	Disagree	3	9%
	Neither agree nor disagree	0	-
	No Response	15	-
		47	100%

Annex B(i) – Other Comments on the Reporting of Other Exchange Gains and Losses

Comment	Secretariat Response
Respondents to the ED2 SMC10(d) commented:	
They supported the disclosure of whether the NPO operates primarily in a country with indefinite or long term (5 years or more) exchange control, as this could significantly reduce the contribution received by the grant/revenue in foreign currency. **The respondent indicated that this issue related to long-term conditions in the exchange conditions in their country.**	This respondent raised the issue from an exchangeability perspective and the impact that this will have on the reported currency – linking this to the August 2023 amendments to IAS 21 *The Effects of Foreign Exchange Rates* which clarify the accounting when there is a lack of exchangeability. The amendments to IAS 21 have been reflected in the proposed amendments to Section 30 of the *IFRS for SMEs* Accounting Standard issued by the International Accounting Standards Board on 28 March 2024. This responds to stakeholder feedback and concerns about diversity in determining whether a currency can be exchanged into another currency and, when it cannot, in estimating the exchange rate to use (including additional disclosure requirements). TAG members will be aware that these amendments were included in ED3. The Secretariat is therefore of the view that this issue has been substantially addressed.
While Section 30 addresses the retranslation of assets and liabilities held in foreign currencies, it does not cover restricted fund balances held in foreign currencies, which the respondent believed it should address. When the retranslated fund balance in local currency is lower than in foreign currency, it may give rise to a present obligation (liability) within the framework of an enforceable grant that is not an EGA.	The Secretariat is of the view that this will be covered by the specifications on grant arrangements and fund accounting or the more general prescriptions on foreign exchange translation. *It would seek TAG's views on this issue.*
A typo in the second sentence of BC30.6 ("This was to show that an NPO may have to fund a loss on from its unrestricted resources.").	Agreed. The correction will be made.

Comment	Secretariat Response
There is a substantial amount of duplication between the main guidance of proposed Section 30 and its Application Guidance that we think could be confusing to the reader, especially when concepts are described using different words that may be read as having a different meaning. The respondent was also not sure that all the Application Guidance is consistent with the requirements of other sections of INPAG. The respondent provided examples below but commented that a more thorough analysis may be required.	The review of application guidance and whether this is best placed in core guidance or Implementation Guidance will remove the duplication. It will also allow an opportunity to address any inconsistencies in terms, concepts or their descriptions within the section and with other sections of INPAG.
Paragraph AG30.16 may need revisiting when Section 17 is considered as part of ED3 because the revaluation model in Section 17 of the IFRS for SMEs Accounting Standard does not require revaluations to be carried out at the end of every reporting period. The respondent suggested deleting the last sentence of paragraph AG30.16 so that it is consistent with paragraph G30.10(c). Another respondent queried where exchange gains and losses would be reported under a revaluation model.	Exchange gains and losses under a revaluation model are addressed in paragraphs G30.10 to G30.13. This treatment of revaluation gains is addressed in paragraph G30.10(c) ie non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The Secretariat is of the view that any application guidance will need to be consistent with these paragraphs and agrees the suggested edit to paragraph AG30.16. *It would seek TAG's views on this issue.*
The reference to "grant arrangement assets" in paragraph AG30.17 should be to "grant prepayment assets"	Agreed - this will be a useful clarification.
Paragraph AG30.17 needs to identify more clearly which of the parties referred to in respect of a grant arrangement liability or a grant prepayment asset is the reporting NPO. The conclusion that these items are non-monetary is dependent on the perspective adopted.	The Secretariat proposes to add clarification about why they are non-monetary items (and the rights to deliver a fixed or determinable amount of units of currency) in the Basis for Conclusions and/or to the Implementation Guidance.
Does an increase in an EGO, or a new obligation under an EGA, always result in the contract becoming onerous? Another respondent commented that an increased EGO and new obligation is directly related to grant arrangements	An onerous contract is one where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The Basis for Conclusions argues that where there is an increase in an EGO or a new obligation and the amount of additional expense can be reliably

Comment	Secretariat Response
and is an integral part of it. Therefore, it would be more consistent to recognise this increased EGO as EGA liability.	measured at the balance sheet date, there would most likely be a present obligation under the grant agreement. This would meet the definition of an onerous contract. The Secretariat is of the view that this might be clarified by such that the new obligation would only be onerous to the extent that such expenses are unavoidable. The Secretariat is seeking TAG members' views on whether increased liabilities would meet the definition of an onerous contract.
Are paragraphs AG30.19 and AG30.20 necessary because a change in the transaction price due to exchange rates would already be accounted for as 'variable consideration' under Section 23.	The Secretariat is of the view that this is the case, and that consideration will be made for their removal. If necessary, the detailed issues arising from these transactions can be included in Implementation Guidance. It may be useful, however, to cross refer to specifications on variable consideration in both sections 23 and 24 (Part 1) in Section 30.
Is the first sentence of paragraph AG30.21 consistent with the second sentence? It may be appropriate to revisit, as part of ED3, universal guidance about when and how an NPO should close down a restricted fund and transfer any remaining balance to 'funds without restrictions'.	It is agreed that Section 36 Guidance supercedes the reporting issues in AG30.21 the Secretariat will ensure that this is specifically addressed when considering the responses to ED3.
On issues relating to recognising grant arrangement liabilities from EGAs under foreign currency (AG30.17-AG30.20). We think that grant arrangement liabilities from EGAs should be treated as monetary items and translated at year end rate, resulting exchange rate gain/loss recognised and presented in the financial statements consistent with the transaction to which it relates.	The Secretariat is of the view that grant arrangement liabilities are not likely to be monetary items. The Basis for Conclusions argues that they are not monetary items because they reflect the revenue received or receivable or enforceable grant obligations (EGOs) in an EGA that need to be met by the grant recipient since no future cash flow is expected to settle these liabilities. Paragraphs AG30.17 to AG30.20 will be reviewed and clarifications provided. These clarifications are likely to be included in Implementation Guidance.
The current requirements are not consistent regarding recognising grant revenue. If exchange gain is returned to donor the grant revenue is reduced. On the other hand, if exchange gain is not returned to donor and instead is spent	This is inconsistent. However, it is intended to reflect the different transactions. The Secretariat has initially agreed with the suggestion that these paragraphs will be deleted, but a separate discussion of the treatment of refunds is still necessary and should be covered in

Comment	Secretariat Response
for project activities related to grant, the grant revenue is not changed (see paragraphs AG30.19 and AG30.20). This is not a consistent approach. It would be better if grant income corresponding to such expenses were recognised. Which can also be achieved by translating this liability and consequently recognising the grant revenue.	the Implementation Guidance which may need to be supported by a discussion in the Basis for Conclusions.
The challenge of handling foreign currency accounting, mainly due to differences among donors in how they treat gains and losses. The suggested adjustments and fund allocations after cash transfers could pose an accounting burden for non-profit organizations (NPOs). Despite varying donor policies regarding currency gains or losses, some participants recommended adhering to guidelines from IPSAS or IFRS for SMEs, allowing any donor claims to be recognised as expenses by the reporting date.	As the amendments made relate predominantly to the presentation and disclosure of exchange gains and losses that were highlighted as a key issue for the sector, the Secretariat is of the view that the principles addressed should be retained. As noted, the Secretariat proposes to consolidate some of the requirements with text published subsequent to ED2.The approach is intended to be proportionate and the Secretariat will consider this when reviewing the final guidance.
Concerns were raised about what may be interpreted by functional currency and the requirements regarding the presentation of financial statements demanded by donors. The latter, in practice, can be taken as a variety of options that can confuse the application of the concept of functional currency, affecting the preparation of financial statements	The donor requirements are anticipated to be special purpose financial reports. INPAG Practice Guide 1 will reduce this confusion. The Secretariat proposes to make cross references to this guidance in the Basis for Conclusions.

Annex B(ii) – Other Comments on the Reporting of Other Exchange Gains and Losses – Relevant Extracts

AG30.16 Non-monetary items that are measured at fair value (for example, 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.

AG30.17 Payments made in advance by grant providers under an EGA that has unfulfilled ***enforceable grant obligations (EGOs)*** *(grant arrangement liabilities) and amounts received in advance by a grant recipient under an EGA that has unfulfilled EGOs (grant arrangement assets) are non-monetary items.*

AG30.18 If an EGO increases, or a new obligation under an EGA is recognised due to the effect of changes in exchange rates, the additional obligation is recognised as a provision (onerous contract) in accordance with Section 21 Provisions and contingencies. The corresponding expense shall be presented in the financial statements and the notes to the financial statements consistent with the transaction to which it relates.

AG30.19 If the impact of the change in exchange rates is to require a refund to the grantor or donor, the refund shall be a reduction to revenue. The reduction to revenue shall follow the presentation required for the EGA or OFA (grant arrangement) to which it relates. If insufficient revenue has been recognised, the balance shall:

(i) be deducted from the grant arrangement liability for the unfulfilled EGOs relating to the EGA; or

(ii) create a liability and a new expense if insufficient revenue has been recognised.

AG30.20 The terms of an EGA may require the NPO to spend all the money it received under that EGA, including any exchange gains on specified activities, even if all EGOs have been met. This requirement shall have no impact on the reported results of the NPO as it relates to future expenses.

AG30.21 Exchange gains or losses arising from a grant arrangement that is presented within funds with restrictions, to the extent that they are not offset by any other impacts unrelated to a change in exchange rates, shall be transferred to/from funds without restrictions. Transfers should be recognised only when the funds no longer meet the definition of restricted funds under G2.74.