Commission Regulation (EU) 2018/519 of 28 March 2018 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards Interpretation 22 of the International Financial Reporting Interpretations Committee (Text with EEA relevance)

COMMISSION REGULATION (EU) 2018/519

of 28 March 2018

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(Text with EEA relevance)

THE EUROPEAN COMMISSION,

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

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

Whereas:

(1) By Commission Regulation (EC) No 1126/2008[(2)] certain international standards and interpretations that were in existence at 15 October 2008 were adopted.

(2) On 8 December 2016, the International Accounting Standards Board (IASB) issued Interpretation 22 *Foreign Currency Transactions and Advance Consideration* of the International Financial Reporting Interpretations Committee (IFRIC 22). The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

(3) The consultation with the European Financial Reporting Advisory Group confirms that the Interpretation IFRIC 22 meets the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(4) Regulation (EC) No 1126/2008 should therefore be amended accordingly.

(5) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

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

Changes to legislation: *There are outstanding changes not yet made to Commission Regulation (EU) 2018/519. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

Article 2

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

Article 3

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

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

Done at Brussels, 28 March 2018.

For the Commission

The President

Jean-Claude JUNCKER

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ANNEX

IFRIC® Interpretation 22

Foreign Currency Transactions and Advance Consideration

REFERENCES

— The Conceptual Framework for Financial Reporting

— IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

— IAS 21 *The Effects of Changes in Foreign Exchange Rates*

BACKGROUND

1. Paragraph 21 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph 22 of IAS 21 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with IFRS Standards (Standards).

2. When an entity pays or receives consideration in advance in a foreign currency, it generally recognises a non-monetary asset or non-monetary liability[(3)] before the recognition of the related asset, expense or income. The related asset, expense or income (or part of it) is the amount recognised applying relevant Standards, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.

3. The IFRS Interpretations Committee (the Interpretations Committee) initially received a question asking how to determine 'the date of the transaction' applying paragraphs 21–22 of IAS 21 when recognising revenue. The question specifically addressed circumstances in which an entity recognises a non-monetary liability arising from the receipt of advance consideration before it recognises the related revenue. In discussing the issue, the Interpretations Committee noted that the receipt or payment of advance consideration in a foreign currency is not restricted to revenue transactions. Accordingly, the Interpretations Committee decided to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

SCOPE

4. This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

5. This Interpretation does not apply when an entity measures the related asset, expense or income on initial recognition:

(a) at fair value; or

(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 *Business Combinations*).

6. An entity is not required to apply this Interpretation to:

(a) income taxes; or

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(b) insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

ISSUE

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

CONSENSUS

8. Applying paragraphs 21–22 of IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

9. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.