PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 4 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES (PBE IPSAS 4)

This Standard was issued on 11 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 9 October 2014. Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in paragraph 72.1.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* issued in May 2013.

PBE IPSAS 4 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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PBE IPSAS 4 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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Public Benefit Entity International Public Sector Accounting Standard 4 *The Effects of Changes in Foreign Exchange Rates* is set out in paragraphs 1–73. All the paragraphs have equal authority. PBE IPSAS 4 should be read in the context of its objective, the Basis for Conclusions, and Standard XRB A1 *Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity, and how to translate financial statements into a presentation currency.

2. The principal issues are (a) which exchange rate(s) to use, and (b) how to report the effects of changes in exchange rates in the financial statements.

Scope

3. **An entity that prepares and presents financial statements shall apply this Standard:**

   (a) **In accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*;**

   (b) **In translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation, or by the equity method; and**

   (c) **In translating an entity's results and financial position into a presentation currency.**

4. PBE IPSAS 29 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of PBE IPSAS 29 (e.g., some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

5. This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. PBE IPSAS 29 applies to hedge accounting.

6. [Not used.]

6.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

6.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

7. [Not used.]

8. This Standard applies to the presentation of an entity's financial statements in a foreign currency, and sets out requirements for the resulting financial statements to be described as complying with PBE Standards. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.

9. This Standard does not apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see PBE IPSAS 2 *Cash Flow Statements*).

Definitions

10. **The following terms are used in this Standard with the meanings specified:**

    <u>Closing rate</u> is the spot exchange rate at the reporting date.

    <u>Exchange difference</u> is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

    <u>Exchange rate</u> is the ratio of exchange for two currencies.

    <u>Foreign currency</u> is a currency other than the functional currency of the entity.

<u>Foreign operation</u> is an entity that is a controlled entity, associate, joint venture, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

<u>Functional currency</u> is the currency of the primary economic environment in which the entity operates.

<u>Monetary items</u> are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

<u>Net investment in a foreign operation</u> is the amount of the reporting entity's interest in the net assets/equity of that operation.

<u>Presentation currency</u> is the currency in which the financial statements are presented.

<u>Spot exchange rate</u> is the exchange rate for immediate delivery.

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Functional Currency

11. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

    (a) The currency:

        (i) That revenue is raised from, such as taxes, donations, bequests, grants and fines;

        (ii) 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

        (iii) Of the country whose competitive forces and regulations mainly determine the sale prices of its goods and services.

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

12. The following factors may also provide evidence of an entity's functional currency:

    (a) The currency in which funds from financing activities (i.e., issuing debt and equity instruments) are generated.

    (b) The currency in which receipts from operating activities are usually retained.

13. 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 entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate, or joint venture):

    (a) Whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when a department of defence has a number of overseas bases that conduct activities on behalf of a central government. The defence bases might conduct their activities substantially in the functional currency of the reporting entity. For example, military personnel may be paid in the functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity, with purchases in local currency being kept to a minimum. Another example would be an overseas campus of a university that operates under the management and direction of the domestic campus. A third example would be the overseas activities of an aid agency that are directed and resourced by the domestic organisation. In contrast, a foreign operation with a significant degree of autonomy may accumulate cash and other monetary items, incur expenses, generate revenue, and perhaps arrange borrowings, all substantially in its local currency.. Some examples of government-owned foreign operations that may operate independently of other government agencies include tourist offices, petroleum exploration companies, trade boards, and broadcasting operations. Such entities may be for-profit entities in a PBE group.

(b) Whether transactions with the reporting entity 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 entity 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 entity.

14. When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events, and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 11 before considering the indicators in paragraphs 12 and 13, which are designed to provide additional supporting evidence to determine an entity's functional currency.

15. An entity's functional currency reflects the underlying transactions, events, and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events, and conditions.

16. If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*. An entity cannot avoid restatement in accordance with PBE IPSAS 10 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its controlling entity).

Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends or similar distributions that are recognised as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g., prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

Net Investment in a Foreign Operation

18. An entity 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 entity's net investment in that foreign operation, and is accounted for in accordance with paragraphs 37 and 38. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

19. The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 18 may be any controlled entity of the economic entity. For example, an entity has two controlled entities, A and B. Controlled entity B is a foreign operation. Controlled entity A grants a loan to controlled entity B. Controlled entity A's loan receivable from controlled entity B would be part of the controlled entity A's net investment in controlled entity B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if controlled entity A were itself a foreign operation.

Summary of the Approach Required by This Standard

20. In preparing financial statements, each entity – whether a stand-alone entity, an entity with foreign operations (such as a controlling entity), or a foreign operation (such as a controlled entity or branch) – determines its functional currency in accordance with paragraphs 11–16. The entity translates foreign currency items into its functional currency, and reports the effects of such translation in accordance with paragraphs 23–42 and 59.

21. Many reporting entities comprise a number of individual entities (e.g., an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint ventures. They may also have branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial

statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 43–59.

22. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with PBE IPSAS 6 *Consolidated and Separate Financial Statements* to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency in accordance with paragraphs 43–59.

Reporting Foreign Currency Transactions in the Functional Currency

Initial Recognition

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

    (a) Buys or sells goods or services, receives or makes donations, bequests or aid payments, whose price is denominated in a foreign currency;

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

    (c) Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

24. **A foreign currency transaction shall be recorded, 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.**

25. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with PBE Standards. 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.

26. Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in PBE IPSAS 2. Although these changes are not cash flows, the effect of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing, and financing activities, and include the differences, if any, if those cash flows had been reported at end-of-period exchange rates.

Reporting at Subsequent Reporting Dates

27. **At each reporting date:**

    (a) **Foreign currency monetary items shall be translated using the closing rate;**

    (b) **Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and**

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

28. The carrying amount of an item is determined in conjunction with other relevant PBE Standards. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with PBE IPSAS 17 *Property, Plant and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency, it is then translated into the functional currency in accordance with this Standard.

29. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories held for sale is the lower of cost and net realisable value in accordance with PBE IPSAS 12 *Inventories*. Similarly, in accordance with PBE IPSAS 21 *Impairment of Non-Cash-*

Generating Assets the carrying amount of a non-cash-generating asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable service amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

(a) The cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (i.e., the rate at the date of the transaction for an item measured in terms of historical cost); and

(b) The net realisable value or recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g., the closing rate at the reporting date).

The effect of this comparison may be that an impairment loss is recognised in the functional currency, but would not be recognised in the foreign currency, or vice versa.

30. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of Exchange Differences

31. As noted in paragraph 5, this Standard does not deal with hedge accounting for foreign currency items. Guidance in relation to hedge accounting, including the criteria for when to use hedge accounting, can be found in PBE IPSAS 29.

32. **Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, shall be recognised in surplus or deficit in the period in which they arise, except as described in paragraph 37.**

33. When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the date of settlement is determined by the change in exchange rates during each period.

34. The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph 26.

35. **When a gain or loss on a non-monetary item is recognised in other comprehensive revenue and expense, any exchange component of that gain or loss shall be recognised in other comprehensive revenue and expense. Conversely, when a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss shall be recognised in surplus or deficit.**

36. Other PBE Standards require some gains and losses to be recognised in other comprehensive revenue and expense. For example, PBE IPSAS 17 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognised in other comprehensive revenue and expense. When such an asset is measured in a foreign currency, paragraph 27(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in other comprehensive revenue and expense.

37. **Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 18) shall be recognised in surplus or deficit in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g., consolidated financial statements when the foreign operation is a controlled entity), such exchange differences shall be recognised initially in other comprehensive revenue and expense, and reclassified from net assets/equity to surplus or deficit on disposal of the net investment in accordance with paragraph 57.**

38. When a monetary item forms part of a reporting entity's net investment in a foreign operation, and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign

operation's individual financial statements in accordance with paragraph 32. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 32. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 32. Such exchange differences are recognised in other comprehensive revenue and expense in the financial statements that include the foreign operation and the reporting entity (i.e., financial statements in which the foreign operation is consolidated, proportionately consolidated, or accounted for using the equity method).

39. When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 23–30. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in Functional Currency

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

41. As noted in paragraph 15, the functional currency of an entity reflects the underlying transactions, events, and conditions that are relevant to the entity. 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 or the provision of goods and services may lead to a change in an entity's functional currency.

42. The effect of a change in functional currency is accounted for prospectively. In other words, an entity 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. Exchange differences arising from the translation of a foreign operation previously classified in other comprehensive revenue and expense in accordance with paragraphs 37 and 44(c) are not reclassified from net assets/equity to surplus or deficit until the disposal of the operation.

Use of a Presentation Currency Other than the Functional Currency

Translation to the Presentation Currency

43. An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when an economic entity, such as an international organisation, contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency, so that consolidated financial statements may be presented.

44. **The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

    (a) **Assets and liabilities for each statement of financial position presented (i.e., including comparatives) shall be translated at the closing rate at the date of that statement of financial position;**

    (b) **Revenue and expenses for each statement of comprehensive revenue and expense or separate statement of financial performance presented (i.e., including comparatives) shall be translated at exchange rates at the dates of the transactions; and**

    (c) **All resulting exchange differences shall be recognised in other comprehensive revenue and expense.**

45. In translating the cash flows, that is the cash receipts and cash payments, of a foreign operation for incorporation into its cash flow statement, the reporting entity shall comply with the procedures in PBE IPSAS 2. PBE IPSAS 2 requires that the cash flows of a controlled entity that satisfies the definition

of a foreign operation shall be translated at the exchange rates between the presentation currency and the foreign currency at the dates of the cash flows. PBE IPSAS 2 also outlines the presentation of unrealised gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents held or due in a foreign currency.

46. For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate revenue and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

47. The exchange differences referred to in paragraph 44(c) result from:

    (a) Translating revenue and expenses at the exchange rates at the dates of the transactions, and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognised in surplus or deficit, and on those recognised in other comprehensive revenue and expense.

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

    These exchange differences are not recognised in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but is not wholly owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognised as part of, minority interests in the consolidated statement of financial position.

48. **The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

    (a) **All amounts (i.e., assets, liabilities, net assets/equity items, revenue, and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that**

    (b) **When amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e., not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).**

49. **When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with PBE IPSAS 10 before applying the translation method set out in paragraph 48, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph 48(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with PBE IPSAS 10, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.**

Translation of a Foreign Operation

50. Paragraphs 51–56, in addition to paragraphs 43–49, apply when the results and financial position of a foreign operation are translated into a presentation currency, so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, proportionate consolidation, or the equity method.

51. The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see PBE IPSAS 6 and PBE IPSAS 8 *Interests in Joint Ventures*).

52. However, a monetary asset (or liability) within an economic entity, whether short-term or long-term, cannot be eliminated against the corresponding liability (or asset) within an economic entity without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item (a) represents a commitment to convert one currency into another, and (b) exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference continues to be recognised in surplus or deficit or, if it arises from the circumstances described in paragraph 37, it is recognised in other comprehensive revenue and

expense, and accumulated in a separate component of net assets/equity until the disposal of the foreign operation.

53. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, PBE IPSAS 6 allows the use of a different reporting date, provided that (a) the difference is no greater than three months, and (b) adjustments are made for the effects of any significant transactions or other events that occur between the different dates.

54. When there is a difference between the reporting date of the reporting entity and the foreign operation, the assets and liabilities of the foreign operation are translated at the exchange rate at the reporting date of the foreign operation.

55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with PBE IPSAS 6. The same approach is used in applying the equity method to associates and joint ventures, and in applying proportionate consolidation to joint ventures in accordance with PBE IPSAS 7 *Investments in Associates* and PBE IPSAS 8.

56. **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 paragraphs 44 and 48.**

Disposal of a Foreign Operation

57. **On the disposal of a foreign operation, the cumulative amount of the exchange differences recognised in other comprehensive revenue and expense, and accumulated in the separate component of net assets/equity relating to that foreign operation shall be recognised in surplus or deficit when the gain or loss on disposal is recognised.**

58. An entity may dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital, or abandonment of all or part of that entity. The payment of a dividend or similar distribution is part of a disposal only when it constitutes a return of the investment, for example when the dividend or similar distribution is paid out of pre-acquisition surplus. In the case of a partial disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss. A writedown of the carrying amount of a foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognised in surplus or deficit at the time of a writedown.

Tax Effects of Exchange Differences

59. For reporting entities subject to income taxes, guidance on the treatment of (a) tax effects associated with the gains and losses on foreign currency transactions, and (b) exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency, can be found in PBE IAS 12 *Income Taxes*.

Disclosure

60. **In paragraphs 62 and 64–66, references to "functional currency" apply, in the case of an economic entity, to the functional currency of the controlling entity.**

61. **The entity shall disclose:**

    (a) **The amount of exchange differences recognised in surplus or deficit, except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with PBE IPSAS 29; and**

    (b) **Net exchange differences recognised in other comprehensive revenue and expense, and accumulated in a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**

62. **When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.**

63. **When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.**

*64. **When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with PBE Standards only if they comply with all the requirements of each applicable Standard, including the translation method set out in paragraphs 44 and 48.**

*65. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 64. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with PBE Standards and the disclosures set out in paragraph 66 are required.

*66. **When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 64 are not met, it shall:**

(a) **Clearly identify the information as supplementary information, to distinguish it from the information that complies with PBE Standards;**

(b) **Disclose the currency in which the supplementary information is displayed; and**

(c) **Disclose the entity's functional currency and the method of translation used to determine the supplementary information.**

Transitional Provisions

67–70. [Not used.]

Effective Date

71–72. [Not used.]

72.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**

Withdrawal and Replacement of PBE IPSAS 4 (May 2013)

73. This Standard, when applied, supersedes PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* issued in May 2013.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 4.

BC1. The New Zealand Accounting Standards Board (NZASB) has not modified the recognition and measurement requirements in IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 4 are appropriate for application by public benefit entities.

Comparison with IPSAS 4

PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* is drawn from IPSAS 4 *The Effects of Changes in Foreign Exchange Rates.* PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance. Other than the impact of this difference, there are no significant differences between PBE IPSAS 4 and IPSAS 4.

History of Amendments

PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 4.

Pronouncements	**Date issued**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015