SECTION PS 2601
foreign currency translation 1

Basis for Conclusions

Financial instruments: foreign exchange narrow-scope amendments, Sections PS 1201, PS 2601 and PS 3450 (April 2021)

Financial instruments: federal government narrow-scope amendments, Sections PS 1201, PS 2601 and PS 3450 (October 2020)

Foreign currency translation, Section PS 2601 (July 2011)

PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report transactions that are denominated in a foreign currency in government financial statements.

.02 This Section does not apply to:

(a) the translation of balances derived from foreign exchange transactions intended to sustain foreign exchange reserves and orderly conditions in the foreign exchange market for the Canadian dollar or to provide assistance to foreign countries;

(b) the translation of balances with the International Monetary Fund, whether in the form of subscriptions, notes, or Special Drawing Rights;

(c) the translation of the financial statements of foreign operations. A foreign operation of a government is typically financially or operationally interdependent with the government such that the exposure to exchange rate changes is similar to the exposure that would exist had the transactions and activities of the foreign operation been undertaken by the government itself; and

(d) the presentation of the exchange gain or loss component of a financial instrument's change in fair value when that financial instrument is associated with foreign exchange transactions described in (a)-(b) above.

[Former paragraphs PS 2601.02(b) and PS 2601.02(c) retained in Archived Pronouncements.]

DEFINITIONS

.03 The following definitions have been adopted for the purposes of this Section:

(a) **Currency risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

(b) **Exchange gain or loss** is the difference that arises when a monetary item denominated in a foreign currency or a non-monetary item denominated in a foreign currency that is included in the fair value category in accordance with FINANCIAL INSTRUMENTS, Section PS 3450, is settled or translated at an exchange rate different from that at which it was previously recorded or carried.

(c) **Exchange rate** is the ratio for exchange of two currencies.

(d) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(e) **Foreign currency** is a currency other than the reporting currency of a government.

(f) **Foreign currency transactions** are transactions of the government whose terms are denominated in a currency other than its reporting currency.

(g) **Monetary items** are money and claims to money the value of which, in terms of the monetary unit, whether foreign or domestic, is fixed by contract or otherwise.

(h) **Remeasurement gains and losses** are revenues and expenses that are recognized in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component arising:

(i) when prior to an item's settlement an **exchange gain or loss** is recognized in accordance with the provisions of this Section; and

(ii) when financial instruments in the fair value category are remeasured in accordance with FINANCIAL INSTRUMENTS, Section PS 3450.

Remeasurement gains and losses do not include exchange gains and losses, including the exchange gain or loss component of changes in fair value, which have been recognized directly in the statement of operations.

[Former paragraph PS 2601.03, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.] [Former paragraph PS 2601.03(h) retained in Archived Pronouncements.]

ACCOUNTING

.04 The financial statements reflect a government's exposure to foreign currency risk.

.05 In order to include foreign currency transactions in the financial statements of a government, the transaction would be expressed in the government's reporting currency. It is assumed that the government's financial statements are prepared in Canadian dollars.

.06 A foreign currency transaction is a transaction that is denominated in or requires settlement in a foreign currency, including transactions arising when a government either:

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

(b) becomes a party to a contract involving foreign currencies.

.07 Translation of a transaction denominated in a foreign currency conforms its reported value to the Canadian dollar equivalent.

.08 The statement of operations reports revenues and expenses denominated in a foreign currency at a rate that approximates the exchange rate on the date of the transaction as well as the exchange gains and losses recognized in accordance with the election in paragraph PS 2601.19A. Consequently, until a financial instrument included in the fair value category is derecognized, any gain or loss due to remeasurement is recognized in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component, except when the election in paragraph PS 2601.19A is made. [Former paragraph PS 2601.08, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.] [Former paragraph PS 2601.08 retained in Archived Pronouncements.]

.09 The statement of financial position reports monetary items that have yet to be settled at the exchange rate in effect on the financial statement date. The exchange rate in effect on the financial statement date is also applied to items measured at fair value in accordance with FINANCIAL INSTRUMENTS, Section PS 3450. Consequently, non-monetary items are translated at the exchange rate in effect on the financial statement date when they are equity instruments included in the fair value category. It would be illogical to apply the exchange rate in effect at the transaction date (i.e., a historical exchange rate) to items measured at fair value.

.10 Recognizing and measuring foreign currency transactions will involve one or more of the following stages:

(a) translation to record the transaction as at the transaction date;

(b) translation of monetary items and items measured at fair value outstanding at the financial statement date to reflect the effect of movements in exchange rates subsequent to the transaction date or previous financial statement date; and

(c) translation, on settlement or derecognition, of monetary items and items measured at fair value. [Former paragraph PS 2601.10(c) retained in Archived Pronouncements.]

Initial recognition

.11 *At the transaction date, each asset, liability and amount reported in the statement of operations arising from a foreign currency transaction of the government should be translated into Canadian dollars by applying the exchange rate in effect at that date.* [APRIL 1, 2019 *]

.12 For practical reasons, a rate that approximates the actual rate at the date of 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 unreliable.

Subsequent financial statement dates

.13 If a transaction denominated in a foreign currency is not settled by the financial statement date, the exchange rate has likely changed from the transaction date or previous financial statement date. The effect of the change in exchange rate would be recognized in the government's financial statements.

.14 *At each financial statement date:*

- *(a) monetary assets and monetary liabilities denominated in a foreign currency; and*
- *(b) non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with FINANCIAL INSTRUMENTS, Section* PS 3450*;*

should be adjusted to reflect the exchange rate in effect at that date. [APRIL 1, 2019 *]

Exchange gains or losses

.15 Changes in the foreign exchange rate between the transaction date and subsequent financial statement dates give rise to an exchange gain or loss. This resulting exchange gain or loss would be accounted for in the financial statements.

.16 During the life of a foreign currency denominated item, there is uncertainty as to the actual gain or loss that will arise on its settlement. Substantial unrealized gains or losses may result from translating an asset or liability into Canadian dollar equivalents for financial statement purposes.

PRESENTATION

.17 Presentation of exchange gains and losses reflects the inherent uncertainty associated with foreign exchange. Some of these amounts are tentative in nature and subject to fluctuation.

.18 *Except when the election in paragraph* PS 2601.19A *is made, an exchange gain or loss that arises prior to settlement is recognized in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.* [APRIL 2026] [Former paragraph PS 2601.18, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.] [Former paragraph PS 2601.18 retained in Archived Pronouncements.]

.19 *Except when the election in paragraph* PS 2601.19A *is made, in the period of settlement:*

- *(a) the cumulative amount of remeasurement gains and losses is reversed from the accumulated remeasurement gains and losses component of net assets or net liabilities on the statement of changes in net assets or net liabilities; and*
- *(b) an exchange gain or loss measured in relation to the exchange rate at the date of the item's initial recognition is recognized in the statement of operations.* [APRIL 2026]

[Former paragraph PS 2601.19, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.] [Former paragraph PS 2601.19 retained in Archived Pronouncements.]

.19A At initial recognition of a financial instrument asset or financial instrument liability arising from a foreign currency transaction, a government may make an irrevocable election to recognize the exchange gains and losses directly in the statement of operations, including those exchange gains and losses arising prior to settlement or derecognition. This election is made on an instrument-by-instrument basis. When this election is made for a financial instrument asset or financial instrument liability in the fair value category, the exchange gain or loss component of the change in fair value is separated and recognized directly in the statement of operations. Amounts subject to this election may be reported on a net basis in the statement of operations. [Former paragraph PS 2601.19A, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.19B Refer to additional presentation guidance in paragraphs PS 1202.157 and PS 3450.077C.

DISCLOSURE

.20 LONG-TERM DEBT, Section PS 3230, contains specific disclosures for long-term debt that would be applied for long-term foreign currency denominated monetary items as well.

.21 Currency risk is a specific market risk a government may face when holding and transacting financial instruments. A government applies FINANCIAL INSTRUMENTS, paragraphs PS 3450.094-.095, to determine the information it discloses. When an item designated to the fair value category is denominated in a foreign currency, there is no separate disclosure of the exchange gain or loss, except when the election in paragraph PS 2601.19A is made. [Former paragraph PS 2601.21 retained in Archived Pronouncements.]

.22 *A government should disclose the exchange gains and losses recognized in the statement of operations and the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.* [APRIL 2026] [Former paragraph PS 2601.22, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.23 This Section applies to fiscal years beginning on or after April 1, 2022. For those government organizations that applied the CPA Canada Handbook – Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook, this Section applies to fiscal years beginning on or after April 1, 2012. Governments and government organizations would also adopt FINANCIAL INSTRUMENTS, Section PS 3450, at the same time. Earlier adoption is permitted.

.23A For those public sector entities that applied this Section to fiscal years beginning on or after April 1, 2012, the election in paragraph PS 2601.19A may be made on a one-time basis, at the beginning of the fiscal year, for existing financial assets and financial liabilities arising from a foreign currency transaction. This election may be applied no later than the fiscal year beginning on or after April 1, 2022. Earlier application is permitted. For any financial asset or financial liability for which this election is made, cumulative unrealized exchange gains and losses arising at the date of the election are recognized as an adjustment to the accumulated surplus or deficit at the beginning of the fiscal year in which this election is applied. Disclosure is required to indicate the use of this election and any adjustment to the accumulated surplus or deficit in the year of application.

(paragraph PS 2601.24 deleted)

.25 The following provisions are applied at the beginning of the fiscal year (the transition date) in which this Section is initially adopted.

(a) Hedge accounting policies followed in financial statements for periods prior to the fiscal year this Section is adopted are not reversed and, therefore, those financial statements are not restated. Any gain or loss arising prior to the transition date on a derivative hedging instrument, and any foreign exchange gain or loss arising prior to the transition date on a non-derivative hedging instrument is accounted for as an adjustment in the balance of the accumulated remeasurement gains and losses at the transition date to the extent those gains or losses have not been recognized in net income or operations prior to the transition date. The carrying value of the hedged item is adjusted based on the foreign exchange rate on the transition date and is accounted for as an adjustment in the balance of the accumulated remeasurement gains and losses at the transition date.

(b) Any unamortized exchange gain or loss relating to a long-term foreign currency denominated monetary item deferred on the statement of financial position is accounted for as an adjustment in the balance of the accumulated remeasurement gains and losses at the transition date.

(c) If no unamortized exchange gain or loss is associated with an item in the cost or amortized cost category that is a monetary asset or a monetary liability as at the date of transition, the exchange rate at the date of transition (instead of the exchange rate at the date of the item's initial recognition) is used in measuring the exchange gain or loss recognized in the statement of operations in the period settlement occurs.

(d) A government organization transitioning from the standards in the CPA Canada Handbook – Accounting recognizes an amount in accumulated remeasurement gains and losses at the beginning of the fiscal year in which this Section is initially applied equal to the closing accumulated other comprehensive income 2 attributable to the translation of the financial statements of a self-sustaining foreign operation.

(e) A government may make the election in paragraph PS 2601.19A for a financial instrument asset or financial instrument liability arising from a foreign currency transaction at the transition date. The following provisions are applied to a financial instrument asset or financial instrument liability for which this election is made:

(i) any exchange gain or loss arising prior to or as at the transition date is accounted for as an adjustment in the balance of the accumulated surplus or deficit at the transition date to the extent that the exchange gain or loss has not been previously recognized in surplus or deficit; and

(ii) any unamortized exchange gain or loss deferred on the statement of financial position is accounted for as an adjustment in the balance of the accumulated surplus or deficit at the transition date.

[Former paragraph PS 2601.25, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.26 When a government organization applies this Section in the same period it adopts Public Sector Accounting Standards for the first time, this Section cannot be applied retroactively. Comparative amounts are presented in accordance with the accounting policies applied by the government organization immediately preceding its adoption of Public Sector Accounting Standards.

.27 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraphs PS 2601.03(h), PS 2601.08, PS 2601.18, PS 2601.19(a)-(b), PS 2601.19A, PS 2601.22 and PS 2601.25(e) and added paragraph PS 2601.19B. The amendments are applicable at the same time as Section PS 1202, for fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted if Section PS 1202 is also early adopted. Prior period amounts would need to be restated to conform to the requirements for comparative financial information in Section PS 1202.

Footnotes

1. References in this Section to a government apply as well to other public sector entities.

* See explanation of effective date in paragraph PS 2601.23.

* See explanation of effective date in paragraph PS 2601.23.

2. In the case of a not-for-profit organization, as recognized in net assets or net liabilities.
