GENERAL ACCOUNTING
SECTION 1651
foreign currency translation

PURPOSE AND SCOPE

.01 This Section establishes standards for the translation of:

(a) transactions of a reporting enterprise that are denominated in a foreign currency (foreign currency transactions); and

(b) financial statements of a foreign operation for incorporation in the financial statements of a reporting enterprise.

.02 This Section assumes that the reporting enterprise prepares its financial statements in Canadian dollars. If another currency (such as the US dollar) is used for reporting purposes, all references to Canadian dollars in this Section would be changed to that currency and the Canadian dollar would be treated as a foreign currency.

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) A **foreign operation** is a subsidiary, division, branch, joint arrangement or similar type of entity that undertakes and/or records its economic activities in a currency other than the reporting currency of the reporting enterprise. Foreign operations are divided into two categories:

(i) An **integrated foreign operation** is a foreign operation that is financially or operationally interdependent with the reporting enterprise 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 reporting enterprise.

(ii) A **self-sustaining foreign operation** is a foreign operation that is financially and operationally independent of the reporting enterprise such that the exposure to exchange rate changes is limited to the reporting enterprise's net investment in the foreign operation.

In some cases, a foreign entity may contain several distinct operations, some of which are integrated and some of which are self-sustaining.

(b) **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. Future income tax liabilities and assets are classified as monetary items.

(c) **Translation methods** are as follows:

(i) The **temporal method** is a method of translation that translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the Canadian dollar (i.e., it uses the Canadian dollar as the unit of measure). In particular:

— monetary items are translated at the exchange rate in effect at the balance sheet date;

— non-monetary items are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect at the balance sheet date;

— revenue and expense items are translated at the exchange rate in effect on the dates they occur; and

— depreciation or amortization of assets translated at historical exchange rates is translated at the same exchange rates as the assets to which it relates.

(ii) The **current rate method** is a method of translation that translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the foreign currency (i.e., it uses the foreign currency as the unit of measure). In particular:

— assets and liabilities are translated at the exchange rate in effect at the balance sheet date; and

— revenue and expense items (including depreciation and amortization) are translated at the exchange rate in effect on the dates on which such items are recognized in income during the period.

(d) A **reporting enterprise** is an entity whose financial statements include transactions entered into by the entity in a foreign currency or whose statements incorporate foreign currency financial statements of a foreign operation.

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

(f) The **net investment** in a self-sustaining foreign operation comprises:

(i) the reporting enterprise's proportionate ownership of the foreign operation's net assets (i.e., the amount equivalent to the carrying value of the investment computed as if using the equity method); and

(ii) any other intercompany balances of a long-term nature that are related to the acquisition or financing of the foreign operation.

ACCOUNTING PRINCIPLES

.04 Financial statements of foreign operations are adjusted, if necessary, to conform with standards in Part II of the Handbook when incorporating them in the financial statements of the reporting enterprise.

OBJECTIVES OF TRANSLATION

.05 For foreign currency transactions, the objective of translation is to express such transactions in a manner that achieves consistency with the accounting treatment for domestic transactions. Since domestic transactions are automatically measured in Canadian dollars, the Canadian dollar is the appropriate unit of measure for foreign currency transactions. Accordingly, the temporal method is used to translate foreign currency transactions.

.06 For foreign operations, the ultimate objective of translation is to express financial statements of the foreign operation in Canadian dollars in the manner that best reflects the reporting enterprise's exposure to exchange rate changes as determined by the economic facts and circumstances.

.07 For integrated foreign operations, the reporting enterprise's 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 reporting enterprise.

Therefore, the financial statements of the foreign operation are expressed in a manner that is consistent with the measurement of domestic transactions and operations. The translation method that best achieves this objective is the temporal method, because it uses the Canadian dollar as the unit of measure.

.08 For self-sustaining foreign operations, the reporting enterprise's exposure to exchange rate changes is limited to its net investment in the foreign operation. Therefore, measuring such operations as if they had carried out their activities in Canadian dollars is considered to be less relevant than measuring the overall effect of changes in the exchange rate on the net investment in such operations. The financial statements of the foreign operation are expressed in Canadian dollars in a manner that does not change the financial results and relationships of the foreign operation. The translation method that best achieves this objective is the current rate method, because it uses the currency of the foreign operation as the unit of measure.

.09 An exception to the approach in paragraph 1651.08 may occur when the economic environment of the foreign operation is highly inflationary relative to that of the reporting enterprise. This would usually result in a continuing and significant depreciation of the foreign currency against the Canadian dollar, and would bring into question the reliability of the foreign currency as the unit of measure. This problem might be overcome by restating the financial statements of the foreign operation to reflect changes in the general price level in that economy prior to translation. However, this proposal is not appropriate at this time since the effects of inflation are not recognized in the basic historical cost financial statements of Canadian companies. In such situations, the temporal method is used to translate the financial statements of the foreign operation.

.10 Whether a foreign operation is classified as integrated or self-sustaining is dependent on the exposure of the reporting enterprise to exchange rate changes as determined by the economic facts and circumstances. Professional judgment is required in evaluating the economic factors that determine the exposure of a reporting enterprise to exchange rate changes. In making this determination, matters that would be taken into consideration include whether:

(a) there are any factors indicating that the cash flows of the reporting enterprise are insulated from or are directly affected by the day-to-day activities of the foreign operation;

(b) sales prices for the foreign operation's products or services are determined more by local competition and local government regulations or more by worldwide competition and international prices, and whether such sales prices are primarily responsive on a short-term basis to changes in exchange rates or are immune to such changes;

(c) the sales market for the foreign operation's products and services is primarily outside the reporting enterprise's country or within it;

(d) labour, materials and other costs of the foreign operation's products or services are primarily local costs, or whether the foreign operation depends on products and services obtained primarily from the country of the reporting enterprise;

(e) the day-to-day activities of the foreign operation are financed primarily from its own operations and local borrowings or primarily by the reporting enterprise or borrowings from the country of the reporting enterprise; and

(f) there is very little interrelationship between the day-to-day activities of the foreign operation and those of the reporting enterprise, or whether intercompany transactions with the reporting enterprise form a dominant part of the foreign operation's activities.

TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS AND RELATED FINANCIAL STATEMENT ITEMS OF THE REPORTING ENTERPRISE

.11 When the reporting enterprise purchases or sells goods or services on credit with settlement to be in a foreign currency, this will give rise to a payable or receivable in that foreign currency. Any subsequent change in exchange rate between the Canadian dollar and the foreign currency will affect the Canadian dollar equivalent of that payable or receivable.

.12 One view is that the Canadian dollar equivalent of the purchase or sale should be adjusted for the effect of any such change in exchange rate, since the transaction is incomplete until the amount of Canadian dollars needed to settle the transaction is determined. This view has been rejected because the exchange gain or loss arising in such a situation is considered to be the result of an event (a rate change) that is separate from the original transaction.

.13 Once foreign currency purchases and sales, or inventories, fixed assets and other non-monetary items obtained through foreign currency transactions, have been translated and recorded, any subsequent changes in the exchange rate will not affect those recorded amounts. (Paragraph 1651.47 discusses the use of averages and other methods of approximation when translating foreign currency amounts.)

.14 *At the transaction date, each asset, liability, revenue or expense arising from a foreign currency transaction of the reporting enterprise shall be translated into Canadian dollars by the use of the exchange rate in effect at that date.*

.15 If a transaction denominated in a foreign currency is not settled by the balance sheet date and the exchange rate has changed, the question arises as to the amount at which the receivable or payable should be presented in the financial statements. It may be argued that, since there may be further changes in the exchange rate, the amount should continue to be reflected at the Canadian dollar equivalent established at the transaction date and should not be adjusted at each intervening balance sheet date for exchange rate changes that have occurred in the meantime. However, this Section concludes that the receivable or payable should be remeasured at the equivalent amount of Canadian dollars that would be collected or paid at the balance sheet date.

.16 *At each balance sheet date, monetary items denominated in a foreign currency shall be adjusted to reflect the exchange rate in effect at the balance sheet date.*

.17 In certain situations, a non-monetary asset acquired through a foreign currency transaction may be carried in the financial statements at market, rather than at cost, as established at the transaction date (for example, inventories written down to market). If the market price is stated in terms of the foreign currency, it would be illogical to apply the exchange rate in effect at the transaction date (i.e., a historical exchange rate) to the foreign currency market price (i.e., a current price) in order to obtain the Canadian dollar equivalent market price.

.18 *At each balance sheet date, for non-monetary assets of the reporting enterprise that are carried at market, the Canadian dollar equivalent shall be determined by applying the exchange rate in effect at the balance sheet date to the foreign currency market price.*

.19 An exchange gain or loss arises when a foreign currency-denominated monetary item is settled or translated at an exchange rate different from that at which it was previously recorded or carried.

.20 *An exchange gain or loss of the reporting enterprise that arises on translation or settlement of a foreign currency-denominated monetary item or a non-monetary item carried at market shall be included in the determination of net income for the current period.*

TRANSLATION OF FINANCIAL STATEMENTS OF INTEGRATED FOREIGN OPERATIONS

.21 As indicated in paragraph 1651.07, the temporal method is to be used for the translation of financial statements of an integrated foreign operation and, therefore, the translation procedures are the same as those specified in paragraphs 1651.11-.18 for the translation of items of the reporting enterprise that are denominated in a foreign currency. (Paragraph 1651.37 provides guidance when a foreign operation enters into transactions denominated in a currency other than its reporting currency or has foreign operations of its own.)

.22 *Financial statements of an integrated foreign operation shall be translated as follows:*

- *(a) Monetary items shall be translated into the reporting currency at the exchange rate in effect at the balance sheet date.*
- *(b) Non-monetary items shall be translated at historical exchange rates, unless such items are carried at market, in which case they shall be translated at the exchange rate in effect at the balance sheet date.*
- *(c) Revenue and expense items shall be translated in a manner that produces substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred.* (For use of averages and other methods of approximation, see paragraph 1651.47).
- *(d) Depreciation or amortization of assets translated at historical exchange rates shall be translated at the same exchange rates as the assets to which they relate.*

.23 In the case of an integrated foreign operation, the effect of a change in exchange rates on the reporting enterprise is the same as if the underlying transactions had been undertaken by the reporting enterprise.

.24 *Exchange gains and losses arising on the translation of financial statements of an integrated foreign operation shall be accounted for in accordance with paragraph* 1651.20*.*

TRANSLATION OF FINANCIAL STATEMENTS OF SELF-SUSTAINING FOREIGN OPERATIONS

.25 As indicated in paragraph 1651.08, the current rate method is to be used for the translation of financial statements of a self-sustaining foreign operation and any excess of purchase price over book value arising on acquisition of the foreign operation. (Paragraph 1651.37 provides guidance when a foreign operation enters into transactions denominated in a currency other than its reporting currency or has foreign operations of its own.)

.26 *Financial statements of a self-sustaining foreign operation shall be translated as follows:*

- *(a) Assets and liabilities shall be translated into the reporting currency at the exchange rate in effect at the balance sheet date.*
- *(b) Revenue and expense items (including depreciation and amortization) shall be translated into the reporting currency at the exchange rate in effect on the dates on which such items are recognized in income during the period.* (For use of averages and other methods of approximation, see paragraph 1651.47.)

When the economic environment of the foreign operation is highly inflationary relative to that of the reporting enterprise, financial statements shall be translated in the manner indicated in paragraph 1651.22*.*

.27 In the case of a self-sustaining foreign operation, the reporting enterprise's exposure to exchange rate changes is limited to its net investment in the foreign operation. The assets and liabilities of a self-sustaining foreign operation are translated at the rate in effect at the balance sheet date for purposes of incorporation in the financial statements of the reporting enterprise and, therefore, an exchange gain or loss will arise when the exchange rate changes. This exchange gain or loss has no direct effect on the activities of the reporting enterprise. It is inappropriate to incorporate this exchange gain or loss in net income of the reporting enterprise in the period in which it arises; rather, it is reported in the financial statements of the reporting enterprise as a separate component of shareholders' equity.

.28 For a foreign operation in an economic environment that is highly inflationary relative to that of the reporting enterprise, exchange gains and losses arising as a result of changes in exchange rates are treated in accordance with paragraph 1651.20.

.29 *Exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation shall be recognized in a separate component of shareholders' equity, except when the economic environment of the foreign operation is highly inflationary relative to that of the reporting enterprise, in which case such exchange gains and losses shall be treated in accordance with paragraph* 1651.20.

.30 A reporting enterprise may dispose or partially dispose of its interest in a self-sustaining foreign operation in a variety of manners, for example through sale, dilution, liquidation, redemption of share capital or abandonment of all, or part of, that operation.

.31 *On the disposal or partial disposal of an interest in a self-sustaining foreign operation, the exchange gains and losses accumulated in a separate component of shareholders' equity shall be accounted for as follows:*

(a) When a reporting enterprise disposes of its entire investment in a foreign operation, the accumulated amount of exchange gains and losses related to the investment that is included in a separate component of shareholders' equity shall be recognized in net income as part of the total gain or loss on the disposal.

(b) When a reporting enterprise disposes of its entire investment in a subsidiary that includes a foreign operation, the reporting enterprise's share of the accumulated amount of exchange gains and losses related to the investment that is included in a separate component of shareholders' equity shall be recognized in net income as part of the total gain or loss on the disposal. The accumulated amount of exchange gains and losses that is attributable to any non-controlling interest shall be derecognized along with the derecognition of the non-controlling interest, but shall not be recognized in net income.

(c) When a reporting enterprise disposes of a part of its interest in a subsidiary that includes a foreign operation and, as a result, loses control of the subsidiary, the entire amount of the accumulated amount of exchange gains and losses related to the subsidiary that is included in a separate component of shareholders' equity shall be recognized in net income as part of the total gain or loss on the partial disposal. The accumulated amount of exchange gains and losses that is attributable to any non-controlling interest shall be derecognized along with the derecognition of the non-controlling interest, but shall not be recognized in net income.

(d) When a reporting enterprise disposes of a part of its interest in a subsidiary that includes a foreign operation and does not thereby lose control of the subsidiary, the reporting enterprise shall reattribute to the non-controlling interests in the foreign operation the proportionate share of the accumulated amount of exchange gains and losses related to the subsidiary that is included in a separate component of shareholders' equity. No amount shall be recognized in net income.

(e) When a reporting enterprise disposes of a portion of an investment in an investee accounted for by the equity method and, as a result, loses significant influence over an investee that includes a foreign operation, the entire accumulated amount of exchange gains and losses related to the investment that is included in a separate component of shareholders' equity shall be recognized in net income as part of the total gain or loss on the disposal.

(f) When a reporting enterprise disposes of a portion of an investment in a jointly controlled enterprise that includes a foreign operation and, as a result, loses joint control over the jointly controlled enterprise, the entire accumulated amount of exchange gains and losses related to the investment sold that is included in a separate component of shareholders' equity shall be recognized in net income as part of the total gain or loss on the disposal.

(g) When a reporting enterprise makes any other partial disposition of a foreign operation, the proportionate share of the accumulated amount of the exchange gains and losses related to that investment that is included in a separate component of shareholders' equity shall be recognized in net income as part of the total gain or loss on the disposal. The proportionate share is the percentage reduction in the interest in the investment. Other partial disposals include a partial disposal of an investee accounted for by the equity method that does not result in the loss of significant influence, and a partial disposal of an investment in a jointly controlled enterprise that does not result in the loss of joint control.

.31A *A reduction in the carrying amount of a self-sustaining foreign operation because of operating or other losses, or because of an impairment recognized by the investor, does not constitute a disposal or a partial disposal. Accordingly, no part of the foreign exchange gains or losses recognized in a separate component of shareholders' equity is recognized in net income as a result of the reduction in carrying amount of the foreign operation.*

CHANGES IN CIRCUMSTANCES RELATING TO FOREIGN OPERATIONS

.32 Once a particular foreign operation has been classified as integrated or self-sustaining and the appropriate translation method has been selected, that method would be used consistently unless there are significant changes in the economic facts and circumstances that indicate that a different translation method should be used.

.33 When the foreign operation is reclassified from self-sustaining to integrated (or the economic environment of a self-sustaining foreign operation becomes highly inflationary), the temporal method is adopted in place of the current rate method beginning in the period of the change. Exchange gains and losses previously accumulated in a separate component of shareholders' equity continue to be included in shareholders' equity. The translated amounts for non-monetary items at the end of the prior period become the historical basis for those items in the period of the change and subsequent periods.

.34 When the foreign operation is reclassified from integrated to self-sustaining (or the economic environment of a self-sustaining foreign operation that had been highly inflationary stabilizes), the current rate method is adopted in place of the temporal method beginning in the period of the change. The exchange gain or loss attributable to current rate translation of non-monetary items as of the date of the change is included as part of the exchange gains and losses included in a separate component of shareholders' equity.

.35 *When there are significant changes in the economic facts and circumstances that require the translation method applied to a particular foreign operation to be changed, the change in method shall be accounted for prospectively.*

TRANSLATION OF AN INVESTMENT ACCOUNTED FOR BY THE EQUITY METHOD

.36 The financial statements of a foreign subsidiary, joint arrangement or investee accounted for by the equity method are first translated into Canadian dollars in accordance with this Section, then the equity method is applied (see SUBSIDIARIES, Section 1591, INVESTMENTS, Section 3051, and INTERESTS IN JOINT ARRANGEMENTS, Section 3056).

TRANSACTIONS AND OPERATIONS OF FOREIGN OPERATIONS THAT ARE DENOMINATED IN ANOTHER CURRENCY

.37 A foreign operation may enter into transactions denominated in a currency other than its own reporting currency, and it may have foreign operations of its own. In such cases, the transactions and financial statements that are denominated in the other currency would be translated into the currency of the foreign operation in accordance with this Section. Then the foreign operation's own financial statements would be translated and incorporated into the financial statements of the reporting enterprise.

HEDGE OF A NET INVESTMENT IN A SELF-SUSTAINING FOREIGN OPERATION

.38 It is possible to hedge a net investment in a self-sustaining foreign operation. For example, the reporting enterprise may have a net investment in a foreign operation located in the United Kingdom and may also borrow pounds sterling and consider that loan a hedge of the net investment in the foreign operation.

.39 An entity may designate all or a specified percentage of:

(a) a derivative (see FINANCIAL INSTRUMENTS, paragraph 3856.05(d)); or

(b) a non-derivative financial liability (see FINANCIAL INSTRUMENTS, paragraph 3856.05(j))

as the hedging item in a hedge of the foreign currency risk in all or a specified percentage of a net investment in a self-sustaining foreign operation (the hedged item).

.40 An entity applies hedge accounting to a hedge of the foreign currency risk in a net investment in a self-sustaining foreign operation when, and only when:

(a) the entity documents that hedge accounting will apply to the specified hedged and hedging items;

(b) the currency in which the hedging item is denominated is the same as the currency in which the foreign operation measures its financial results; and

(c) foreign currency gains or losses on the hedging item are expected to offset foreign currency gains or losses on the hedged item throughout the term of the hedging relationship.

.41 *Exchange gains or losses on the hedging item designated in accordance with paragraph* 1651.40 *shall be offset against the exchange gain or loss on the net investment in the separate component of shareholders' equity* (see paragraph 1651.29). *When the economic environment of the foreign operation is highly inflationary relative to that of the reporting enterprise, exchange gains or losses on the hedging item shall be recognized immediately in net income.*

ADDITIONAL ASPECTS OF TRANSLATION

.42 The translation of individual items and transactions is governed by this Section. Certain additional aspects of translation are discussed in the following paragraphs.

Intercompany transactions

Integrated foreign operations

.43 With respect to integrated foreign operations, exchange gains and losses relating to intercompany balances recorded by the reporting enterprise or the foreign operation are treated in the same manner as those relating to other foreign currency receivables or payables in accordance with paragraph 1651.20.

Self-sustaining foreign operations

.44 With respect to self-sustaining foreign operations, exchange gains and losses on intercompany account balances that are not included as part of the net investment are treated in the same manner as those relating to normal foreign currency trade balances in accordance with the appropriate requirements of this Section. Exchange gains and losses on intercompany account balances that form part of the net investment are recognized in the separate component of shareholders' equity in accordance with paragraph 1651.29.

Elimination of intercompany profits

.45 CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, requires elimination of profits attributable to sales to, or transfers between, companies under common control. With respect to assets (for example, inventories, machinery) of a self-sustaining foreign operation obtained through such a sale or transfer, a question arises as to whether the amount of intercompany profit to be eliminated should be computed at the exchange rate in effect at the date of sale or transfer or that in effect at the balance sheet date. Since the intercompany profit arises on the date of sale or transfer, the exchange rate in effect on that date is used to compute the amount of intercompany profit to be eliminated. Changes in exchange rates relating to subsequent events that are not connected with the intercompany sale or transfer should not impact the amount of intercompany profits to be eliminated.

Differences in dates of financial statements

.46 When the date of the financial statements of the foreign operation differs from that of the reporting enterprise, those assets and liabilities that are translated at the current rate would normally be translated at the rate in effect at the balance sheet date of the foreign operation, not at the rate in effect at the balance sheet date of the reporting enterprise.

Use of averages or other methods of approximation

.47 Literal application of this Section might require a degree of detail in record keeping and computations that would be burdensome as well as unnecessary to produce reasonable approximations of the results. Accordingly, it is acceptable to use averages or other methods of approximation. For example, translation of the numerous revenues, expenses, gains and losses at the exchange rates at the dates such items are recognized is generally impractical, and an appropriately weighted average exchange rate for the period would normally be used to translate such items.

Non-controlling interest

.48 The non-controlling interest reported in an enterprise's consolidated financial statements is based on the financial statements of the foreign operation in which there is a non-controlling interest after they have been translated in accordance with this Section. In particular, the non-controlling interest reported includes the non-controlling interest's proportionate share of exchange gains and losses.

Preference shares

.49 Preference shares of a foreign operation held by the reporting enterprise are translated in the same manner as common shares (i.e., at historical rates) unless redemption is either required or imminent, in which case the current rate is used. Preference shares held by non-controlling shareholders in an integrated foreign operation are also translated at historical rates unless redemption is either required or imminent, in which case the current rate would be used. Preference shares held by non-controlling shareholders in a self-sustaining foreign operation are translated at the current rate. (When the economic environment of a self-sustaining foreign operation is highly inflationary, the preference shares of the foreign operation are translated in the same manner as preference shares of integrated foreign operations.)

Lower of cost and market

.50 The exchange rate used to translate assets of an integrated foreign operation is dependent on the basis of their valuation in the foreign currency financial statements; when valued at cost, historical rates are used, and when valued at market, the current rate is used. The term "market" is used to cover all terms that are more descriptive of the method of determining market, such as "replacement cost" and "net realizable value" (see INVENTORIES, Section 3031).

.51 When assets are valued at lower of cost and market, a write-down to market may be required in the translated financial statements even though no write-down is required in the foreign currency financial statements. For example, inventory purchased at a cost of FC 500 when the exchange rate is FC 1 = $2 will have a translated historical cost of $1,000. If, at the balance sheet date, its market amount is FC 600 and the exchange rate is FC 1 = $1.50, the translated market amount of $900 will be less than the translated historical cost of $1,000, and a write-down of inventory in the translated financial statements will be required. If, at the subsequent balance sheet date, its market amount remains FC 600 and the exchange rate is FC 1 = $2.25, the translated market amount of $1,350 will be greater than both the translated historical cost of $1,000 and translated market amount at the end of the previous balance sheet date of $900. A reversal of the write-down of the translated amount of the inventory will be made in the translated financial statements, up to the lower of the translated historical cost in this case $1,000 (FC 500 translated at the historical rate FC 1 = $2), and market of $1,350 (FC 600 translated at the current exchange rate of FC 1 = $2.25).

.52 On the other hand, it may be necessary to reverse a write-down in the foreign currency financial statements prior to translation if the market amount translated at the current rate exceeds historical cost translated at the historical rates. For example, inventory purchased at a cost of FC 500 when the exchange rate is FC 1 = $3 will have a translated cost of $1,500. If, at the balance sheet date, its market amount is FC 400 and the exchange rate is FC 1 = $4, the translated market amount of $1,600 will exceed the translated historical cost of $1,500. A reversal of the write-down of the foreign currency amount of the inventory will be made prior to translation; the foreign currency cost would then be translated at the historical rate.

(paragraph 1651.53 deleted)

Future income tax liabilities and assets

.54 Future income tax liabilities and assets are monetary items and, as such, are translated at the current rate.

Cash flow statement

.55 In translating the components of the cash flow statement of a self-sustaining foreign operation, the following guidelines are provided:

(a) Cash from operations is translated at the exchange rate at which the respective items are translated for income statement purposes.

(b) Other items are translated at the exchange rates in effect when the related transactions took place.

(c) The effect of subsequent exchange rate changes on the cash flows during the period and on cash and cash equivalents at the commencement of the period are disclosed, so that cash and cash equivalents at the end of the period are translated at the exchange rate in effect on that date.

DISCLOSURE

.56 *The amount of an exchange gain or loss included in net income shall be disclosed. An entity may exclude from this amount those exchange gains or losses arising on investments in equity securities that are measured at fair value in accordance with FINANCIAL INSTRUMENTS, Section* 3856.

.57 *When a change is made in the translation method applied to a particular foreign operation, disclosure shall be made of the reasons for the change.*

EFFECTIVE DATE AND TRANSITION

.58 Except as specified in paragraphs 1651.59-.61, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.59 Amendments to paragraphs 1651.30-.31A, issued in October 2012, may be applied prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g), to annual financial statements relating to fiscal years beginning on or after January 1, 2013. Earlier application is permitted.

.60 Amendments to paragraphs 1651.03(a) and 1651.36, issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

.61 Amendments to paragraph 1651.51, issued in July 2017, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2018. Earlier application is permitted.

APPENDIX A

APPLICATION GUIDANCE
DISPOSAL OF AN INTEREST IN A SELF-SUSTAINING FOREIGN OPERATION

This material is illustrative only.

This table provides a summary of the accounting requirements of paragraph 1651.31. Matters of principle relating to particular situations should be decided in the context of the Section.

	Accumulated exchange gains / losses	
	Reporting enterprise share	**NCI 1 share**
Disposal of:		
Entire foreign operation	Net income	N/A
Entire investment in subsidiary with a foreign operation	Net income	Derecognize No effect on net income
Portion of interest in subsidiary with a foreign operation — loss of control	Net income	Derecognize No effect on net income
Portion of interest in subsidiary with a foreign operation — no loss of control	Reattribute proportionate share to NCI No effect on net income	Reattribute from NCI No effect on net income
Portion of interest in equity method investee — loss of significant influence	Net income	N/A
Portion of interest in jointly controlled enterprise — loss of joint control	Net income	N/A
Other	Portion of gains / losses equal to the percentage reduction in the interest is recognized in net income	N/A

APPENDIX B

UNIT OF MEASURE

This Appendix is an integral part of this Section.

Measurement

B1 The term "measurement" is used in this Section to describe quantification, in terms of a monetary unit, of an entity's economic activities (i.e., its resources and obligations and changes in them). The measurement issue is of particular relevance when consolidating or combining activities undertaken in different currencies, since they have to be expressed in a single currency for financial reporting purposes.

Basis of measurement

B2 Several different bases of measurement are currently used (for example, historical cost, replacement cost, and net realizable value). It is not the intent of the translation process to change the basis of measurement that has been adopted by a particular operation. However, prior to translation, a change in the basis of measurement adopted for a foreign operation may be required in order to achieve conformity with the accounting policies adopted by the reporting enterprise (for example, substituting historical cost if the foreign operation has used current cost).

Canadian dollar versus foreign currency as unit of measure

B3 Two alternative approaches have been advocated for expressing, in Canadian dollars, amounts that are denominated or recorded in a foreign currency:

(a) adopt the Canadian dollar as the unit of measure (the Canadian dollar approach); or

(b) retain the foreign currency as the unit of measure (the foreign currency approach).

B4 The Canadian dollar approach maintains the concept that the translation process should reflect the operations of the entire group as though they were operations of a single enterprise; for consistency, therefore, the unit of measure employed for financial statement items of a foreign operation should be the same as that used for transactions of the reporting enterprise.

B5 However, the foreign currency approach is based on the premise that expressing financial statement items of a foreign operation at their current Canadian dollar equivalent is the most meaningful presentation, since it preserves the relationships in the foreign currency financial statements.

B6 The difference between using the Canadian dollar or the foreign currency as the unit of measure becomes apparent when there is a change in the exchange rate. For example, if a fixed asset is acquired for FC 100 (i.e., 100 foreign currency units) when the exchange rate is FC 1 = $1 Cdn., its historical cost in Canadian dollars, under both the foreign currency and the Canadian dollar approach, would be expressed as $100 Cdn. If the exchange rate changes to FC 1 = $2 Cdn., under the foreign currency approach, the historical cost of the asset expressed in Canadian dollars would be $200 Cdn. (the foreign currency cost of the asset, translated at the current exchange rate) whereas under the Canadian dollar approach, the historical cost of the asset would remain at $100 Cdn. In other words, the cost to the reporting enterprise of the asset in this example can be measured either in foreign currency or in Canadian dollars even though both are expressed in Canadian dollars for reporting purposes.

B7 When the Canadian dollar is adopted as the unit of measure, the translation process changes a measurement in foreign currency into a measurement in Canadian dollars without changing the basis of measurement. This is achieved by using the temporal method, which translates transactions and assets and liabilities carried at past prices (for example, fixed assets carried at historical cost) at applicable historical rates, and assets and liabilities carried at current prices (for example, marketable securities carried at current market price) at the rate in effect at the balance sheet date.

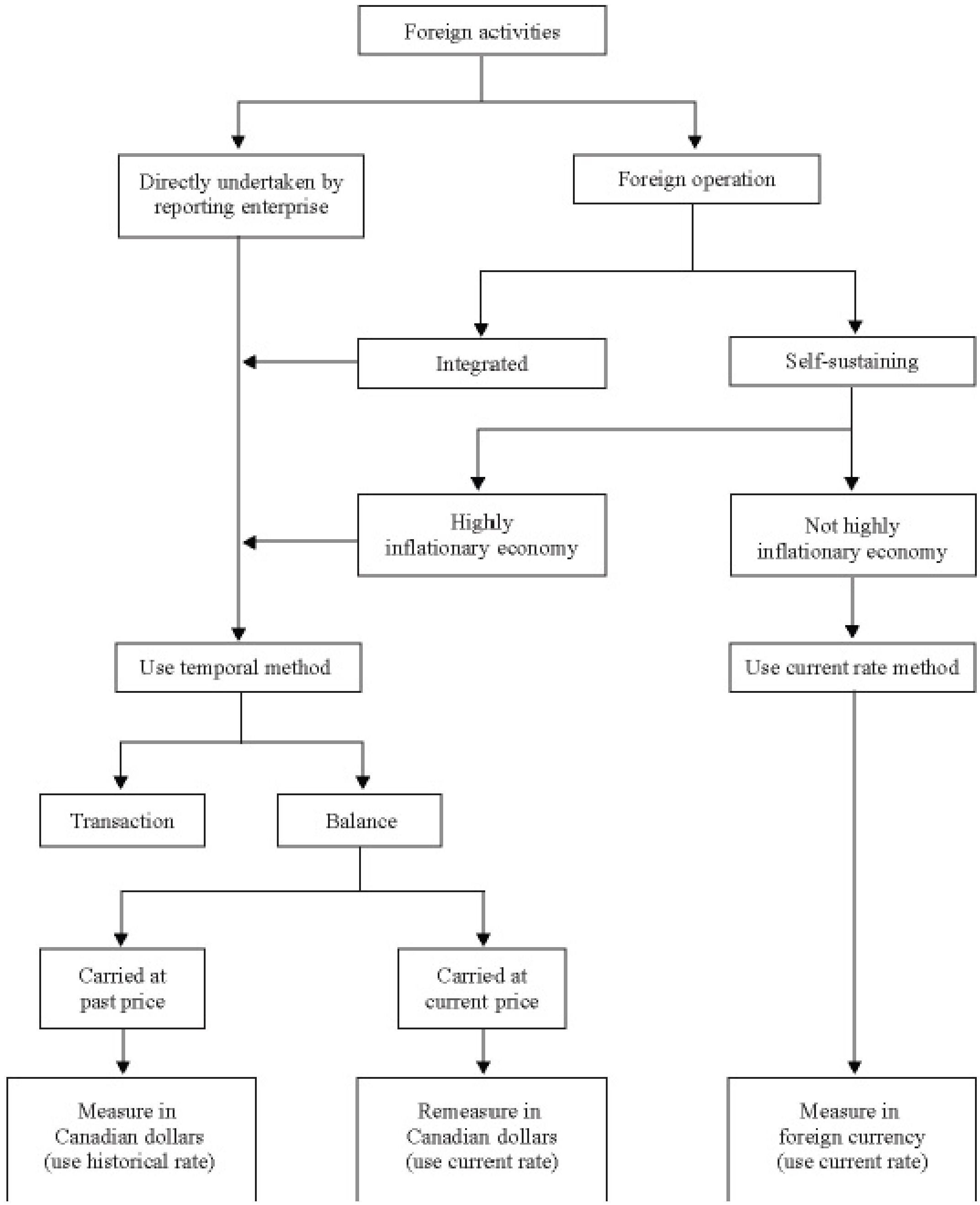
B8 When the foreign currency is retained as the unit of measure, the translation process converts amounts denominated or recorded in a foreign currency into their current Canadian dollar equivalent. This is achieved by using the current rate method, which translates all financial statement items at current rates. Under this method, the historical cost of assets and liabilities measured at past prices will change each time there is a change in exchange rates.

B9 The unit of measure issue is of significance only for assets and liabilities recorded or denominated in a foreign currency that are carried at past prices (for example, historical cost). When the asset or liability is carried at a current price, it will be translated at the current rate under either the Canadian dollar or the foreign currency approach.

DECISION TREE — APPLICATION OF UNIT OF MEASURE

This Decision Tree is illustrative only.

The following Decision Tree is provided as an aid to applying the measurement issue to foreign currency transactions and foreign operations. Matters of principle relating to particular situations should be decided in the context of this Section.



Footnotes

1. Non-controlling interest.