

SECTION PS 2601

foreign currency translation 1

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

.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** encompass revenues and expenses that are recognized in the statement of remeasurement gains and losses 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(h) retained in Archived Pronouncements.]

.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 remeasurement gains and losses, except when the election in paragraph PS 2601.19A is made. [Former paragraph PS 2601.08 retained in Archived Pronouncements.]

.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 remeasurement gains and losses.* [APRIL 1, 2022 *] [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 in the statement of remeasurement gains and losses; 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 1, 2022 *]

[Former paragraph PS 2601.19 retained in Archived Pronouncements.]

.19A At initial recognition of a financial asset or financial 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 asset or financial 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.

.22 *A government should disclose the exchange gains and losses recognized in the statement of operations and the statement of remeasurement gains and losses.* [APRIL 1, 2019 *]

- .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 asset or financial liability arising from a foreign currency transaction at the transition date. The following provisions are applied to a financial asset or financial 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.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving narrow-scope amendments to FOREIGN CURRENCY TRANSLATION, Section PS 2601 (April 2021).

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

...

- (h) **Remeasurement gains and losses** encompass revenues and expenses 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.

...

- .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. 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 remeasurement gains and losses.

...

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

...

- (c) translation, on settlement, of monetary items and items measured at fair value.

...

- .18 *An exchange gain or loss that arises prior to settlement is recognized in the statement of remeasurement gains and losses.* [APRIL 1, 2019 *]

- .19 *In the period of settlement:*

- (a) *the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses; 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 1, 2019 *]

...

- .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.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving narrow-scope amendments to FOREIGN CURRENCY TRANSLATION, Section PS 2601.

- .02 This Section does not apply to:

...

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

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.

* 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.

* See explanation of effective date in paragraph PS 2601.23.

* See explanation of effective date in paragraph PS 2601.23.

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