

A photograph of two women sitting at a table in a modern office setting. The woman on the left has long red hair and is wearing a green jacket, looking at a laptop. The woman on the right has dark curly hair and is wearing a dark blazer, looking at the laptop. There are white chairs, a glass of water, and a pen on the table. A red vertical bar is on the left side of the image.

ASPE AT A GLANCE

Section 1651 - Foreign Currency Translation

Section 1651 - Foreign Currency Translation

Effective Date
Fiscal years beginning on or after January 1, 2011¹

SCOPE

Applies to the translation of:

- Transactions of a reporting enterprise denominated in a foreign currency (foreign currency transactions); and
- Financial statements of a foreign operation for incorporation in the financial statements of a reporting enterprise.

DEFINITIONS

REPORTING ENTERPRISE		FOREIGN CURRENCY TRANSACTIONS		FOREIGN OPERATION		NET INVESTMENT IN A SELF-SUSTAINING FOREIGN OPERATION		TRANSLATION METHODS					
<ul style="list-style-type: none"> • 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. 		<ul style="list-style-type: none"> • Transactions of the reporting enterprise whose terms are denominated in a currency other than its reporting currency. 		<ul style="list-style-type: none"> • 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. • There are <u>two</u> categories of foreign operations: 		<ul style="list-style-type: none"> • Consists of: <ul style="list-style-type: none"> • The reporting enterprise's proportional 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 • Any other intercompany balances of a long-term nature that are related to the acquisition or financing of the foreign operation. 		<table border="1"> <thead> <tr> <th>TEMPORAL METHOD</th> <th>CURRENT RATE METHOD</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> • Translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the <u>Canadian dollar</u> (the standard assumes the Canadian dollar as the unit of measure; however, it may be a currency other than the Canadian dollar). In particular: <ul style="list-style-type: none"> • <u>Monetary items</u> are translated at the exchange rate in effect at the balance sheet date; • <u>Non-monetary items</u> are translated at historical exchange rates, unless they are carried at market, then they are translated at the exchange rate in effect at the balance sheet date; • <u>Revenue and expense items</u> are translated at the exchange rate in effect on the dates they occur; and • <u>Depreciation or amortization</u> of assets translated at historical exchange rates is translated at the same exchange rates as the assets to which it relates. </td> <td> <ul style="list-style-type: none"> • Translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the <u>foreign currency</u> (i.e. it uses the foreign currency as the unit of measure). In particular: <ul style="list-style-type: none"> • <u>Assets and liabilities</u> are translated at the exchange rate in effect at the balance sheet date; and • <u>Revenue and expense items</u> (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. </td> </tr> </tbody> </table>		TEMPORAL METHOD	CURRENT RATE METHOD	<ul style="list-style-type: none"> • Translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the <u>Canadian dollar</u> (the standard assumes the Canadian dollar as the unit of measure; however, it may be a currency other than the Canadian dollar). In particular: <ul style="list-style-type: none"> • <u>Monetary items</u> are translated at the exchange rate in effect at the balance sheet date; • <u>Non-monetary items</u> are translated at historical exchange rates, unless they are carried at market, then they are translated at the exchange rate in effect at the balance sheet date; • <u>Revenue and expense items</u> are translated at the exchange rate in effect on the dates they occur; and • <u>Depreciation or amortization</u> of assets translated at historical exchange rates is translated at the same exchange rates as the assets to which it relates. 	<ul style="list-style-type: none"> • Translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the <u>foreign currency</u> (i.e. it uses the foreign currency as the unit of measure). In particular: <ul style="list-style-type: none"> • <u>Assets and liabilities</u> are translated at the exchange rate in effect at the balance sheet date; and • <u>Revenue and expense items</u> (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.
TEMPORAL METHOD	CURRENT RATE METHOD												
<ul style="list-style-type: none"> • Translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the <u>Canadian dollar</u> (the standard assumes the Canadian dollar as the unit of measure; however, it may be a currency other than the Canadian dollar). In particular: <ul style="list-style-type: none"> • <u>Monetary items</u> are translated at the exchange rate in effect at the balance sheet date; • <u>Non-monetary items</u> are translated at historical exchange rates, unless they are carried at market, then they are translated at the exchange rate in effect at the balance sheet date; • <u>Revenue and expense items</u> are translated at the exchange rate in effect on the dates they occur; and • <u>Depreciation or amortization</u> of assets translated at historical exchange rates is translated at the same exchange rates as the assets to which it relates. 	<ul style="list-style-type: none"> • Translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the <u>foreign currency</u> (i.e. it uses the foreign currency as the unit of measure). In particular: <ul style="list-style-type: none"> • <u>Assets and liabilities</u> are translated at the exchange rate in effect at the balance sheet date; and • <u>Revenue and expense items</u> (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. 												
		<table border="1"> <thead> <tr> <th>INTEGRATED FOREIGN OPERATION</th> <th>SELF-SUSTAINING FOREIGN OPERATION</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> • A foreign operation that is financially or operationally <u>interdependent</u> with the reporting enterprise such that the exposure to exchange rate changes is similar to the exposure that would have existed had the transactions and activities of the foreign operation been undertaken by the reporting enterprise. </td> <td> <ul style="list-style-type: none"> • A foreign operation that is financially and operationally <u>independent</u> 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. </td> </tr> </tbody> </table>		INTEGRATED FOREIGN OPERATION	SELF-SUSTAINING FOREIGN OPERATION	<ul style="list-style-type: none"> • A foreign operation that is financially or operationally <u>interdependent</u> with the reporting enterprise such that the exposure to exchange rate changes is similar to the exposure that would have existed had the transactions and activities of the foreign operation been undertaken by the reporting enterprise. 	<ul style="list-style-type: none"> • A foreign operation that is financially and operationally <u>independent</u> 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. 						
INTEGRATED FOREIGN OPERATION	SELF-SUSTAINING FOREIGN OPERATION												
<ul style="list-style-type: none"> • A foreign operation that is financially or operationally <u>interdependent</u> with the reporting enterprise such that the exposure to exchange rate changes is similar to the exposure that would have existed had the transactions and activities of the foreign operation been undertaken by the reporting enterprise. 	<ul style="list-style-type: none"> • A foreign operation that is financially and operationally <u>independent</u> 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. 												

¹ Except as specified in paragraph 1651.58



TRANSLATION

FOREIGN CURRENCY TRANSACTIONS

- Translated using the temporal method.
- Exchange gains or losses that arise on translation must be included in net income for the current period.

FOREIGN OPERATIONS

- Translated in the manner that best reflects the reporting enterprise's exposure to exchange rate changes.
- Paragraph 1651.10 sets out matters that would be taken into consideration when determining whether a foreign operation is classified as integrated or self-sustaining.

INTEGRATED FOREIGN OPERATIONS

- Translated using the temporal method.
- Exchange gains or losses that arise on translation must be included in net income for the current period.

SELF-SUSTAINING FOREIGN OPERATIONS

- Translated using the current rate method.
- Exchange gains and losses are recognized as a separate component of shareholders' equity.
- When the economic environment of the foreign operation is highly inflationary, the temporal method is used instead to translate the financial statements.
- A reporting enterprise may dispose or partially dispose of its interest in a self-sustaining foreign operation in a variety of ways. Refer to paragraphs 1651.31-.31A and Appendix A for guidance on how to account for this change.

CHANGES IN CIRCUMSTANCES RELATING TO FOREIGN OPERATIONS

- When the translation method applied to a particular foreign operation must be changed due to significant changes in the economic facts and circumstances, the change in method must be accounted for prospectively.

TRANSLATION OF AN INVESTMENT ACCOUNTED FOR BY THE EQUITY METHOD

- The financial statements of a foreign subsidiary, joint arrangement or investee accounted for by the equity method are:
 - First, translated into Canadian dollars according to the requirements in this Section; and
 - Then, the equity method is applied (refer to Section 1591, *Subsidiaries*, Section 3051, *Investments*, and Section 3056, *Interests in Joint Arrangements*).

ADDITIONAL ASPECTS OF TRANSLATION

- Guidance related to the following items is provided in paragraphs 1651.42-.55:
 - Intercompany transactions, elimination of intercompany profits, differences in dates of financial statements, use of averages or other methods of approximation, non-controlling interest, preference shares, lower of cost or market, future income tax liabilities or assets, and the Cash Flow Statement.



20 Wellington Street East
Suite 500
Toronto ON M5E 1C5
416-865-0111
www.bdo.ca

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances. BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.