ASPE At a Glance

Section 1651 - Foreign Currency Translation

BDO

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Section 1651 - *Foreign Currency Translation*

Effective Date
Fiscal years beginning on or after January 1, 2011[1]

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

- 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.

Foreign Currency Transactions

- Transactions of the reporting enterprise whose terms are denominated in a currency other than its reporting currency.

Foreign Operation

- 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 two categories of foreign operations:

Integrated Foreign Operation

- 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 have existed had the transactions and activities of the foreign operation been undertaken by the reporting enterprise.

Self-Sustaining Foreign Operation

- 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.

Net Investment In a Self-Sustaining Foreign Operation

- Consists of:
  - 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.

Translation Methods

Temporal Method

- Translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the Canadian dollar (the standard assumes the Canadian dollar as the unit of measure; however, it may be a currency other than the Canadian dollar). 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 they are carried at market, then 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.

Current Rate Method

- 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.

[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.

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