Material published to accompany

SIC-7

Introduction of the Euro

The text of the unaccompanied Interpretation, SIC-7, is contained in Part A of this edition. Its effective date when issued was 1 June 1998. This part presents the following document:

BASIS FOR CONCLUSIONS

Basis for Conclusions on
SIC Interpretation 7 *Introduction of the Euro*

This Basis for Conclusions accompanies, but is not part of, SIC-7.

[The original text has been marked up to reflect the revision of IAS 21 in 2003 and IAS 1 in 2007 and the amendment of IAS 27 in 2008:[1] new text is underlined and deleted text is struck through.]

5   IAS 21.23~~11~~(a) requires that foreign currency monetary items (as defined by IAS 21.8~~07~~) be reported using the closing rate at ~~each balance sheet date~~ the end of each reporting period. According to IAS 21.28~~15~~, exchange differences arising from the translation of monetary items generally should be recognised as income or as expenses in the period in which they arise. The effective start of the EMU after the reporting period ~~balance sheet date~~ does not change the application of these requirements at the end of the reporting period ~~balance sheet date~~; in accordance with IAS 10.10~~28~~[2] it is not relevant whether or not the closing rate can fluctuate after the ~~balance sheet date~~ reporting period.

6   IAS 21.5~~14~~ states that the Standard does not apply to ~~deal with~~ hedge accounting~~, except in restricted circumstances~~. Therefore, this Interpretation does not address how foreign currency hedges should be accounted for. IAS 8.~~42~~ would allow such a change in accounting policy only if the change would result in a more appropriate presentation of events or transactions.[3] The effective start of EMU, of itself, does not justify a change to an entity's established accounting policy related to ~~anticipatory~~ hedges of forecast transactions because the changeover does not affect the economic rationale of such hedges. Therefore, the changeover should not alter the accounting policy where gains and losses on financial instruments used as ~~anticipatory~~ hedges of forecast transactions are ~~currently deferred~~ initially recognised in ~~equity~~ other comprehensive income and matched with the related income or expense in a future period.

7   IAS 21.48~~37~~ requires the cumulative amount of exchange differences relating to the translation of the financial statements of a foreign operation ~~entity which~~ that have been ~~deferred in equity~~ recognised in other comprehensive income and accumulated in a separate component of equity in accordance with IAS 21.17, ~~19 or 30~~32 or 39(c) to be ~~recognised as income or expenses~~ reclassified from equity to profit or loss in the same period in which the gain or loss on disposal or partial disposal of the foreign operation ~~entity~~ is recognised. The fact that the cumulative amount of exchange differences will be fixed under EMU does not justify immediate recognition as income or

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1   The consolidation requirements in IAS 27 were superseded, and IAS 27 was renamed *Separate Financial Statements*, by IFRS 10 *Consolidated Financial Statements* issued in May 2011.

2   ~~IAS 10 (revised in 1999), paragraph 20, contains similar requirements.~~

3   As SIC-7 was issued before IAS 39, the previous version of this Interpretation could refer only to the entity's own accounting policies on the matter. The accounting for hedges was subsequently covered under IAS 39 *Financial Instruments: Recognition and Measurement*. In November 2013 the Board replaced the hedge accounting requirements in IAS 39 and relocated them to IFRS 9 *Financial Instruments*.

expenses ~~since~~ <u>because</u> the wording and the rationale of IAS 21.<u>48</u>~~37~~ clearly preclude such a treatment.

8   ~~Under the Allowed Alternative Treatment of IAS 21.21, exchange differences resulting from severe devaluations of currencies are included in the carrying amount of the related assets in certain limited circumstances. Those circumstances do not apply to the currencies participating in the changeover since the event of severe devaluation is incompatible with the required stability of participating currencies.~~