14. Foreign currency translation

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| **OVERVIEW** | * A subsidiary measures its assets, liabilities, revenues and expenses in its functional currency, which is the currency of the primary economic environment in which it operates.
* Unrealized exchange gains and losses on foreign currency transactions are recognized in the income statement.
* Exchange differences related to net investments in foreign operations are recognized in equity only for consolidated financial statement purposes.
* Goodwill and fair value adjustments arising from the acquisition of a foreign subsidiary are translated at the closing rate.
* The financial statements of a foreign subsidiary are translated for the purpose of consolidation as follows: assets and liabilities are translated at the closing rate, revenues and expenses are translated at actual rates or appropriate averages, and equity components (excluding the current year movements, which are translated at actual rates) are not retranslated.
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14.1 Purpose and scope

This policy provides guidance and rules on accounting for **foreign currency translations** for the purpose of preparing the financial statements of the Group according to International Financial Reporting Standards.

In considering the treatment of the effect of foreign currency translation, the following steps should be considered:

* determine the functional currency;
* translate foreign currency transactions;

translate foreign currency financial statements.

14.2 Determination of the functional currency

The **functional currency** is the currency of the primary economic environment in which the subsidiary operates. A subsidiary should measure its assets, liabilities, equity, revenues and expenses in its functional currency. All transactions in currencies other than the functional currency should be considered as foreign currency transactions.

Subsidiaries’ functional currencies reflect the underlying transaction, events and circumstances relevant to that particular subsidiary. If a particular currency is used to a significant extent in, or has a significant impact on, the subsidiary, that currency may be appropriate to be used as the functional currency.

Subsidiaries do not have a free choice in choosing the functional currency. In determining an appropriate functional currency the subsidiary should consider if a particular currency is used to a significant extent in, or has a significant impact on, the subsidiary.

Primary factors to consider include the currency:

* that influences sales prices for goods and services (this will often be the currency in which sales prices for goods and services are denominated and settled),
* of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services,

that mainly influences labor, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

Other primary indicators that should be taken into consideration are:

* the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated,

the currency in which receipts from operating activities are usually retained.

When selecting a functional currency it is important that this currency is the currency of the actual pricing of the majority of transactions rather than just the currency of their denomination.

14.3 Translation of foreign currency transactions

**This section does not address the translation of financial statements.**

At the transaction date

Each foreign currency transaction is recorded in the subsidiary’s functional currency at the rate of exchange at the date of the transaction (‘spot rate’).

For practical reasons an average rate for a week or a month may be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of an average rate for a period is unreliable and should not be used.

Subsequent measurement

At the balance sheet date assets and liabilities denominated in a currency other than the subsidiary’s functional currency are translated as follows:

* monetary assets and liabilities are translated at the exchange rate at the balance sheet date. Foreign exchange differences arising on translation should be recognized in the income statement as part of the financial result.
* non‑monetary assets and liabilities carried at historical cost are not retranslated – they remain at the exchange rate at the date of the transaction.

non‑monetary assets and liabilities carried at fair value are translated at the exchange rate when the fair value was determined.

**Monetary items** are defined as money held, and assets and liabilities to be received or paid in fixed or determinable amounts of money.

Examples of monetary items include:

* Cash
* Cash equivalents
* Debt securities
* Accounts receivable
* Notes receivable
* Accounts payable
* Lease payable
* Accruals

Deferred tax

**Non‑monetary items** are defined as items that will not be received in a fixed or determinable amount of cash.

Examples of non‑monetary items include:

* Prepaid expenses and income received in advance, on the basis that no money will be paid or received in the future,
* Equity securities held and share capital, on the base that any future payments are not fixed or determinable,

Other examples are: Goodwill, intangible assets, inventories, property, plant and equipment and provisions.

14.4 Net investment in a foreign operation (permanent loan)

A **foreign operation** is a subsidiary whose activities are based or conducted in a country or currency other than those of the parent company.

A monetary item receivable from or payable to a foreign operation may form part of a net investment in a foreign operation. In order to qualify, settlement of the monetary item should be neither planned nor likely in the foreseeable future. To form part of the net investment in a foreign operation, the subsidiary that has the monetary item receivable or payable may be the parent company or any subsidiary in the Group.

In the Group’s **consolidated** financial statements, foreign exchange gains and losses arising from monetary items that in substance form part of the net investment in a foreign operation should be recognized directly in equity (in the foreign currency translation reserve) and recognized as income or expenses on disposal of the net investment.

In order to qualify, settlement of the monetary item must be neither planned nor likely in the foreseeable future (e.g. non‑redeemable loan or loan without maturity date). Additionally, these monetary assets or liabilities should be denominated in the functional currency of either the parent company or the foreign operation; if not, the exchange difference should remain recognized in profit or loss.

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| If your subsidiary grants loans to other entities within the Group for which settlement is neither planned nor likely to occur in the foreseeable future, Corporate Finance should be informed immediately.  |

14.5 Translation of foreign currency financial statements

Foreign currency financial statements should be translated into the presentation currency (US dollars) of the Company as follows:

* Assets and liabilities should be translated at the exchange rate at the balance sheet date;
* Income and expenses are translated at the average exchange rate for the year (calculated using monthly averages);
* The elimination of intercompany profits that are attributable to sales or other transfers between subsidiaries that are consolidated, combined, or accounted for by the equity method in the Group’s financial statements shall be based on the exchange rates at the dates of the sales or transfers. The use of reasonable approximations or averages is permitted.
* Equity transactions (e.g., dividends) are translated at the average exchange rate for the year (calculated using monthly averages). Equity should be maintained at the historical rate;

The resulting exchange differences are recognized directly in equity and are presented as a separate component of equity (foreign currency translation reserve).

The Group’s financial statements shall not be adjusted for a rate change that occurs after the date of its financial statements or after the date of the foreign currency statements of a foreign entity if they are consolidated, combined, or accounted for by the equity method in the financial statements of the enterprise. However, disclosure of the rate change and its effects on unsettled balances pertaining to foreign currency transactions, if significant, may be necessary.

Goodwill and fair value adjustments of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate (exchange rate at the balance sheet date).

14.6 Foreign currency translation reserve

The net exchange difference that is recognized in the foreign currency translation reserve in each period represents the following:

* The differences on retranslation of opening net assets;
* The differences relating to the income statement (average exchange rates versus closing exchange rate);

Differences relating to other transactions recognized in equity (e.g. dividends paid, etc.).

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| **Rationalization of the yearly foreign exchange difference** **Opening net assets x (CR – OR)** + **Net assets changes from P/L x (CR – AR)** + **Net asset changes from other equity transactions x (CR – AR)** = **Translation adjustment in equity**  CR = Rate at year end (closing rate) OR = Rate at beginning of year (opening rate) AER = Average exchange rate |

* 1. Disclosure

The Group’s financial statements shall disclose:

(a) the amount of net exchange differences recognized in other comprehensive income except for those arising on financial instruments measured at fair value through profit or loss in accordance with IAS 39; and (b) the net exchange differences classified in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period. When there is a change in the functional currency of either the reporting entity or a significant foreign operation, disclose that fact. Disclose the reason for any change in the functional currency.

*Disclosure - Hyperinflationary economies*

When the financial statements of an entity whose functional currency is hyperinflationary are presented in a presentation currency that is non-hyperinflationary, disclose the fact that the financial statements for the current period, but not for the previous period: (a) have been restated for changes in the general purchasing power of the functional currency; and (b) as a result, are stated in terms of the measuring unit current at the end of the reporting period. Disclose whether the financial statements are based on a historical cost approach or a current cost approach. Disclose the identity and level of the price index at the end of the reporting period and the movement in the index during the current and the previous reporting period.

*Disclosure - Presentation and functional currency*

When the presentation currency is different from the functional currency, disclose that fact. In addition to the above, disclose: (a) the functional currency; and (b) the reason for using a different presentation currency. When an entity presents its financial statements in a currency that is different from its functional currency, it describes the financial statements as complying with IFRSs only if they comply with all the requirements of each applicable standard and each applicable interpretation including the translation method set out in IAS 21.39 and .42.