

# TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

## AASB 121 “The Effects of Changes in Foreign Exchange Rates” replaces AASB 1012 “Foreign Currency Translation”

### Major impact of changes

- AASB 121 permits an entity to present its financial report in any currency it chooses (para 38). Previously, AASB 1034 “Financial Report: Presentation and Disclosure” required entities to present their financial reports in Australian currency. Treasury will mandate that agencies continue to present their financial reports in Australian currency.

### Key features of Standard

- The Standard replicates the requirements of AASB 1012, except for the areas discussed under “main differences” below.

### Main differences compared to previous Australian requirements

- *Two concepts of currency:* The AASB 1012 notion of a ‘reporting currency’ is replaced by two concepts:
  - *Functional currency* – currency of the primary economic environment in which the entity operates (para 8). This is the currency in which the entity measures the items in its financial report.
  - *Presentation currency* – currency in which the financial report is presented (para 8). AASB 121 allows an entity to present its financial report in any currency (para 38). Previously, AASB 1034 required the use of the Australian currency as the reporting currency.
- *Hedge accounting:* AASB 121 does not address hedge accounting whereas AASB 1012 prescribed the treatment for hedging transactions. Information on hedge accounting is now found in AASB 139 “Financial Instruments: Recognition and Measurement”.
- *Foreign operations:* There are differences in the classification and treatment of foreign operations. This should have limited impact on the NSW public sector. However, any agencies that have foreign operations should refer to the Standard.

### Impact on the public sector

- No differential impact.

### Policy and Implementation issues (see attached)

- Treasury will mandate that agencies continue presenting financial reports in Australian currency. This means that for NSW public sector agencies, the functional and presentation currency should be the same.

This summary has been written in general terms and is intended for reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.

**SUMMARY OF POLICY, IMPLEMENTATION & SYSTEM ISSUES  
AASB 121 “THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES”  
TREASURY & AGENCIES**

	Issue	Treasury Policy		System/ Implementation Issue	Mandate Options for GFS Harmonisation	Budget / Total State Sector Issues
		Mandate Option	Additional Guidance			
1	Mandate that agencies continue to present financial reporting in Australian currency	✓				
2	AASB 1 First time adoption – cumulative translation differences relating to a net investment in a foreign operation (para 21-22) i.e. need not comply with AASB 121 for cumulative translation differences that existed at the date of transition.	✓ i.e. need not comply with AASB 121. But, should not be an issue for most public sector agencies.				