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File No.:

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Dear Ms Ng,

**Draft interpretation on foreign currency  
transactions and advance consideration**

I refer to your letter dated 28 October 2015 inviting our comments on the draft interpretation issued by the International Financial Reporting Standards Interpretations Committee for foreign currency transactions and advance consideration (“the Draft Interpretation”).

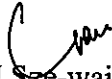
The Draft Interpretation provides guidance on how to account for a foreign currency transaction in which consideration was received or paid in advance of the recognition of the related asset, expense or income. It proposes that the date of which the exchange rate is to be used for recording such transaction should be the earlier of the date of initial recognition of the non-monetary prepayment asset or deferred income liability, or the date that the asset, expense or income is recognized. For a transaction which is completed in stages, the relevant date should be established for each stage and the exchange rate for each date should be applied to the related part of the transaction. On the initial application, it is proposed that entities will have an option of applying the guidance retrospectively or prospectively.

We welcome the Draft Interpretation as it would remove the diversity in accounting for foreign currency transactions which involve advance consideration. We also note that the proposed guidance is consistent with the International Accounting Standard 21 which requires a foreign currency transaction to be recorded in the functional currency by applying the exchange rate of the date on which the transaction first qualifies for recognition. As we appreciate, to require entities to restate transactions with multiple receipts or payments which are recognized over a considerable time would be burdensome for the financial statements preparers. Thus,

we support that an option should be provided to the preparers to implement the guidance prospectively.

We are grateful for the opportunity to provide our comments on the Draft Interpretation.

Yours sincerely,

  
(CHAN Sze-wai, Benjamin)  
for Commissioner of Inland Revenue