19 Foreign Currency Translation

Policy Statement

It is the policy of the Province of Nova Scotia to report the accounts of the province in Canadian dollars. The effects of transactions, expenses, assets, and liabilities that are denominated in foreign currencies are translated to Canadian dollars.

Policy Objectives

The objective of this policy is to express foreign currency transactions in a manner that is consistent with domestic transactions (Canadian dollar basis).

The policy will conform to generally accepted accounting principles (GAAP) for foreign currency translations.

This policy supports the following corporate objectives:

- consistency of currency used
- flexibility to incur foreign currency transactions
- fiscal responsibility
- accountability
- compliance with GAAP/PSAB
- need to manage foreign currency transactions
- enhanced measurement of cost of foreign transactions
- improved information to support long-term planning

Application

This policy applies to all transactions throughout the departments and public service votes, but primarily to the Treasury Services Group at the Department of Finance.

All other public sector entities related to the Province of Nova Scotia are encouraged to adopt a GAAP-compliant foreign currency translation policy and apply it as soon as is practical.

It is recognized that many entities may already have an appropriate policy in place.

All areas/entities to which this policy is applicable are responsible for implementation and operation of an internal control system that ensures that foreign currency transactions are accounted for in accordance with this policy.

Policy Directives

INCLUSIONS

The policy applies to the following:

- debt denominated in a foreign currency
- sinking fund assets and earnings held in same currency as the related debt
- sinking funds assets and earnings held in Canadian dollars for debt of foreign currencies
- foreign currency denominated fund assets and earnings of the Public Debt Retirement Fund (PDRF)

EXCLUSIONS

The following transactions are excluded:

- foreign currency effects of swaps.

ACCOUNTING

Debt

Foreign currency debt is originally converted to Canadian dollars at the currency translation rate in effect on the date of issue, the historical rate.

The balance of foreign currency debt is translated to Canadian dollars at year-end using the rate in effect as at the balance sheet date. The gain/loss caused by the change in the current rate is deferred and amortized over the remaining life of the debt on a straight-line basis.

Where a swap is attached to the debt, the final foreign currency translation gains/ losses are essentially fixed at the swap rate. At each year-end, the swap rate, not the current rate, is the conversion factor used to translate the foreign debt into Canadian dollars. Any gains/losses are amortized over the remaining life or until settlement of the debt.

Sinking Funds Held in Foreign Currency

Foreign currency sinking funds are established to provide funds for foreign currency—denominated debt retirement/settlement.

Instalments to sinking funds are recorded in Canadian dollars, translated at the currency translation rate in effect on the date of payment.

The foreign currency value of all sinking fund instalments and withdrawals are translated to Canadian dollars at the current rate at each year-end date. Sinking fund earnings are earned throughout the year and therefore are translated to Canadian dollars using an average rate for the year. The gain/loss caused by changes in the current rate is deferred and amortized over the remaining life of the sinking fund investments on a straight-line basis.

Sinking fund income is recorded at the currency translation rate in effect when earnings are allocated.

Sinking Funds Held in Canadian Dollars for Foreign Currency Debt
Since the transactions for these sinking funds are already recorded in Canadian dollars, no translation is required. No exchange gains/losses are generated by these funds.

Amortization of foreign exchange ceases when the monetary item is settled. Any unamortized amounts would be recognized into net income immediately.

In the case of replacement debt, any unamortized foreign exchange gains/losses are not fully recognized into net income immediately but continue to be amortized over the remaining life of the replacement debt.

Policy Guidelines

Debt management decisions will have significant impact on future operations in the form of amortization charges. Treasury Services considers the impact that any refinancing or changes to existing debt structures may have on annual amortization costs. Given that future foreign currency translation rates are not easily predicted or controllable, amortization charges represent a non-discretionary cost once debt decisions are made. Amortization charges for foreign exchange gains and losses extend to future years.

Budgeting should reflect the multi-year nature of foreign currency translation amortization charges.

Accountability

TREASURY SERVICES, DEPARTMENT OF FINANCE
Treasury Services is responsible to

- account for foreign currency transactions and monetary items in accordance with this policy
- monitor policy and recommend changes to the policy as necessary
- maintain detailed information on all deferred foreign currency gains/losses
- record amortization of foreign currency gains/losses
- report foreign currency—denominated monetary items and transactions

appropriately on the financial statements of the province
- recognize the impact of debt-management decisions on the operating budget (i.e., amortization charges)
- determine the most appropriate sources and terms of financing
- ensure that proper control of foreign currency monetary items is maintained

GOVERNMENT ACCOUNTING, DEPARTMENT OF FINANCE
Government Accounting is responsible to

- coordinate the annual audit with Treasury Services and the auditors
- update this policy in consultation with Treasury Services

Monitoring

Treasury Services and Government Accounting of the Department of Finance are responsible for monitoring the application and audit of this policy. They are also responsible for ensuring compliance with and timely implementation of this policy.

This policy is subject to audit by internal audit and audit by the province's auditor, the Office of the Auditor General. These auditors are encouraged to coordinate their work effort to avoid duplication.

References

Canadian Institute of Chartered Accountants (CICA)
Public Sector Accounting Board (PSAB)

Transitional Provisions

This policy will be implemented as at March 31, 1999. Unamortized foreign exchange gains/losses and foreign currency monetary items currently owned will be restated accordingly.

Appendices

Appendix 19-A	Definitions
Appendix 19-B	CICA Handbook References

Note: These appendices are an integral part of this policy.

Enquiries

Treasury Services, Department of Finance (902) 424-6061

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Government Accounting, Department of Finance (902) 424-7021

Appendix 19-A

Definitions for Province of Nova Scotia

AMORTIZATION
The process of allocating costs over the estimated or known life of the monetary item to match costs with the revenues or public services that they help generate. The method of amortization used should best match the costs of the associated revenues or expenses.

FOREIGN CURRENCY TRANSACTIONS
Transactions denominated in a currency other than Canadian dollars.

FOREIGN CURRENCY GAINS AND LOSSES
Result when a foreign currency—denominated monetary item is settled or translated at an exchange rate different from that at which it was previously recorded or carried. The exchange gain or loss would be included in net income except when the monetary item has a fixed or ascertainable life extending beyond the end of the following fiscal year, in which case the exchange gain or loss would be deferred and amortized over the remaining life of the related monetary item.

HEDGES
Used to protect against possible loss due to a change in exchange rates between the Canadian dollar and the foreign exchange currency. A hedge could be a foreign currency exchange contract or monetary item of the specified foreign currency. The province uses some foreign currency sinking funds to offset exchange risk for debt of the same currency.

HISTORICAL RATE
The foreign currency exchange rate in effect at the date of issue of the debt. It becomes the basis for any future gains and losses as the exchange rates fluctuate.

MONETARY ITEMS
Money and claims to money, the value of which, in terms of the monetary unit, whether foreign or domestic, is fixed by contract or otherwise.

REPLACEMENT DEBT

Issued to replace original debt that has been paid out. The terms are essentially the same, such that it is really a continuation of the original debt. The currency denomination and creditors are the same. The present value of future cash flows is substantially the same, not more than 10 per cent difference from the original expected cash flows.

Appendix 19-B

CICA Handbook References

TRANSLATION
HB1650.16
At each balance sheet date, monetary items denominated in a foreign currency should be adjusted to reflect the exchange rate in effect at the balance sheet date.

DEFERRAL AND AMORTIZATION
HB1650.23
Exchange gains and losses of the reporting enterprise relating to the translation of foreign currency—denominated monetary items that have a fixed or ascertainable life extending beyond the end of the following fiscal year should be deferred and amortized on a systematic and rational basis over the remaining life of the monetary item. Disclosure should be made of the method of amortization used.

AMORTIZATION PERIOD
HB1650.26
The life of a long-term foreign currency—denominated monetary item can change because of settlement prior to the maturity date. In the event of such settlement, the actual cost of the foreign currency risk will be known, and, accordingly, any unamortized exchange gain or loss will be credited or charged to net income at the date of settlement.

HB1650.27
There may be situations when a renegotiation of the terms and conditions of a long-term foreign currency—denominated monetary item may not constitute a settlement as contemplated in paragraph 1650.26. In such circumstances, any unamortized balance of exchange gains and losses at the date of renegotiation would be amortized over the life of the renegotiated monetary item. Any gains or losses arising from changes in exchange rates occurring subsequent to the date of renegotiation relate to the renegotiated monetary item and would also be amortized over its remaining life, in accordance with paragraph 1650.23.

HEDGES

HB1650.50

If a foreign currency exchange contract, asset, liability, or future revenue stream is to be regarded as a hedge of a specific foreign currency exposure, (a) it should be identified as a hedge of the item(s) to which it relates; and (b) there should be reasonable assurance that it is and will continue to be effective as a hedge.

HB1650.54

If a foreign currency—denominated monetary item is covered by (a) a hedge that is itself a foreign currency—denominated monetary item, any exchange gain or loss on the hedge should be offset against the corresponding exchange gain or loss on the hedged item; (b) a hedge that is a non-monetary item, any exchange gain or loss on the foreign currency—denominated monetary item should be deferred until the settlement date of that monetary item.

USES OF AVERAGES OR OTHER METHODS OF APPROXIMATION

HB1650.61

Literal application of the recommendations in this section might require a degree of detail in record keeping and computations that would be burdensome as well as unnecessary to produce reasonable approximations of the results. Accordingly, it is acceptable to use averages or other methods of approximation. For example, translation of the numerous revenues, expenses, gains, and losses at the exchange rates at the dates such items are recognized is generally impractical and an appropriately weighted average exchange rate for the period would normally be used to translate such items.