19.1 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. Transactions, expenses, assets, and liabilities that are denominated in foreign currencies are translated to Canadian dollars before they are recorded.

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 the Public Sector for foreign currency translations.

This policy supports the following corporate objectives:

- consistency of currency used (Canadian dollars)
- flexibility to incur foreign currency transactions
- fiscal responsibility
- accountability
- compliance with Public Sector Accounting Standards
- 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, most of which belong to Capital Markets Administration and Liability Management and Treasury Services (LMTS).

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 foreign currency transactions are accounted for in accordance with this policy.

Policy Directives

INCLUSIONS

The policy applies to the following:

- revenues and expenses denominated in a foreign currency
- debt denominated in a foreign currency
- sinking fund assets and earnings held in same currency as the related debt
- sinking fund 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

Revenue and Expenses

Revenues and expenses denominated in a foreign currency should be recorded in Canadian dollars using the currency translation rate in effect when the revenues are earned or the goods/services are received.

SAP will perform foreign currency conversions for US dollar amounts only. For currencies other than US dollars, a bank draft is purchased in the desired currency and foreign receipts are converted upon deposit to determine the Canadian dollar value. LMTS is available to provide quotes for the best foreign exchange rates to use on any given day.

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 outstanding balance of foreign currency debt is translated to Canadian dollars at year end using the current rate, the rate in effect as at the year end 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 translation rate 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. LMTS 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

CAPITAL MARKETS ADMINISTRATION, DEPARTMENT OF FINANCE AND TREASURY BOARD

Capital Markets Administration 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 exchange gains/losses
- record amortization of foreign exchange gains/losses
- report foreign currency denominated monetary items and transactions appropriately on the financial statements of the province

LIABILITY MANAGEMENT AND TREASURY SERVICES (LMTS), DEPARTMENT OF FINANCE AND TREASURY BOARD

LMTS is responsible to

- monitor policy and recommend changes to the policy as necessary
- 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 AND TREASURY BOARD

Government Accounting is responsible to

- coordinate the annual audit with Capital Markets Administration, LMTS and the auditors
- update this policy in consultation with Capital Markets Administration and LMTS

Monitoring

LMTS, Capital Markets Administration and Government Accounting are responsible for monitoring the application and audit of this policy.

References

Public Sector Accounting Standards

2601 Foreign Currency Translation

Appendix

Appendix 19-A Definitions

Note: This appendix is an integral part of this policy.

Enquiries

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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.

CURRENCY RISK
Currency risk is the risk of changes in the value of an asset or liability due to changes in exchange rates.

FAIR VALUE
Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

FOREIGN EXCHANGE 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.

HEDGE ACCOUNTING
Hedge accounting is a method for recognizing the gains, losses, revenues and expenses associated with the items in a hedging relationship, such that those gains, losses, revenues and expenses are recognized in operations in the same period when they would otherwise be recognized in different periods.

HEDGE EFFECTIVENESS

Hedge effectiveness is the extent to which changes in fair value or cash flows of a hedged item relating to the foreign exchange risk being hedged and arising during the term of a hedging relationship are offset by changes in fair value or cash flows of the corresponding hedging item related to the foreign exchange rate and arising during the same period.

HEDGED ITEM

Hedged item is all or a specified portion of an asset, a liability, or a group of similar assets or liabilities having an identified foreign exchange risk exposure that a government has taken steps to modify.

HEDGING ITEM

Hedging item is all or a specified portion of an asset, a liability or group of similar assets or liabilities modifying the foreign exchange risk exposure identified in the hedged item.

HEDGING RELATIONSHIP

Hedging relationship is a relationship established by government between a hedged item and a hedging item, including a synthetic instrument relationship.

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

Cash and claims to cash, 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.

SYNTHETIC INSTRUMENTS

Synthetic instruments are monetary items that are artificially created through the use of other monetary or derivative items in combination to emulate the characteristics and behaviour of a specific monetary item.

SYNTHETIC INSTRUMENT ACCOUNTING

Synthetic instrument accounting is a method of accounting for the assets and liabilities in a synthetic instrument relationship as though they were the item being emulated.