

Q&A CNC 23/030	<u>QUESTIONS / ANSWERS:</u> CHANGE OF CURRENCY OF BOOKKEEPING AND OF PRESENTATION OF ANNUAL ACCOUNTS UNDER LUX GAAP AND LUX GAAP-FV REGIMES
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Context:

This Q&A follows on from Q&A CNC 22/026 (R) entitled 'Currency of bookkeeping and of presentation of annual accounts under LUX GAAP and LUX GAAP-FV' and deals with the specific case of a change in the currency used for bookkeeping and for the presentation of annual accounts under LUX GAAP and LUX GAAP-FV.

As already mentioned in Q&A CNC 22/026 (R), neither the accounting directive 2013/34/EU¹, nor the Law of 19 December 2002 on the Trade and companies register as well as on the bookkeeping and annual accounts of undertakings (LRCS), nor the Law of 10 August 1915 on commercial companies (LSC) provide guidelines on the choice of currency for bookkeeping and presentation of annual accounts, or on the possibility and the related procedures for changing it.

As a reminder, Q&A CNC 22/026 (R) concludes that "[t]here is no legal requirement for undertakings to keep their day-to-day books and to present their annual accounts in a specific currency (...)".

In this context, Luxembourg undertakings subject to general accounting law are not required to use the euro², neither the currency of their share capital nor their functional currency³ for their day-to-day bookkeeping and for the presentation of their annual accounts. In other words, "undertakings are free to determine the currency in which their day-to-day books are kept and in which their annual accounts are presented (...)" provided that the currency is legal tender and is fully convertible and freely usable and that it is issued or guaranteed by a central bank or by a public authority (see: Q&A CNC 22/026 (R)).

While this principle of freedom of choice for the currency in which the day-to-day books are kept and the annual accounts are presented is now clearly established when an undertaking subject to general accounting law is created or incorporated (see: Q&A CNC 22/026 (R)), the question now arises as to whether it is possible to change this currency during the social existence of the undertaking and, if so, the practical arrangements and implications of such a change.

Considering that it is in the interest of stakeholders to clarify this issue, the purpose of this Q&A is to provide answers to several questions concerning the change of currency for day-to-day bookkeeping and for the presentation of annual accounts under LUX GAAP and LUX GAAP-FV.

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¹ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

² Although the use of the euro as the currency for day-to-day bookkeeping and for the presentation of annual accounts is not required, it should be noted that 90% of Luxembourg undertakings filing financial data with the Trade and companies register (RCS) present their annual accounts in euros.
Source : Analyses 4/2020. « La Centrale des bilans : un état des lieux décennal », Institut national de la statistique et des études économiques (STATEC), p.14.

³ International Accounting Standard IAS 21 as adopted by the European Union defines functional currency as follows:
"Functional currency is the currency of the primary economic environment in which the entity operates".

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Content :

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2. Is the currency used for bookkeeping and for presentation of the annual accounts somehow linked to the currency of the share capital, and does a change in one require a change in the other?
3. Which body has the authority to change the currency used for bookkeeping and for the presentation of the annual accounts?
4. For undertakings that choose to link the change in the currency of the share capital with the change in the currency used for bookkeeping and for the presentation of the annual accounts, what is the effective date of the change in currency?
5. What is the effective date of the change in the currency used for bookkeeping and for the presentation of the annual accounts for undertakings that do not link this change to the change in the currency of the share capital?
6. Does a change in currency during the financial year necessarily imply two shortened financial years, i.e. first a closing of the annual accounts for the current financial year presented in the old currency and second a reopening of a new financial year in which the annual accounts are presented in the new currency?
7. When is the best time to change the currency of bookkeeping and/or presentation of the annual accounts?
8. What are the conversion terms for the bookkeeping and for the annual accounts?
9. With regard to comparative figures for the previous financial year, what should be done if the currency used for bookkeeping and for the presentation of the annual accounts has changed during the current financial year?
10. What information must be provided in the notes to the accounts in relation to the change in the currency used for bookkeeping and for the presentation of the annual accounts?

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Questions / Answers:

1. Is it possible to change the currency used for bookkeeping and for the presentation of annual accounts during the social existence of an undertaking?

The aforementioned Q&A CNC 22/026 (R) states in its introduction that *"the choice of currency for the day-to-day bookkeeping and the presentation of the annual accounts is generally made when the undertaking is set up, and any subsequent change must be extraordinary and justified"⁴.*

When an undertaking finds itself in an extraordinary situation where a change in the currency used for bookkeeping and for the presentation of the annual accounts appears justified (e.g. change in business model, significant changes in the value chain involving key suppliers and/or key customers, change in lead shareholders or entry of new key investors), it may legitimately proceed with such a change of currency.

2. Is the currency used for bookkeeping and for the preparation of the annual accounts linked to the currency of the share capital, and does a change in one require a change in the other?

Once again, Q&A CNC 22/026 (R) states that *"as the law currently stands, no provision of [general] accounting law requires alignment between the currency of the share capital and the currency used for bookkeeping purposes and for the preparation of annual accounts. Consequently, it appears that undertakings are free to choose a currency for bookkeeping and for the preparation of annual accounts that differs from the currency of the share capital"*.

It should be noted, however, that the prevailing practice in Luxembourg is to align the currency used for bookkeeping and for the preparation of annual accounts with the currency in which the share capital is denominated. In this context, a change in the currency of the share capital – recorded by notarial deed for most legal forms (e.g. SA, S.à r.l.) – generally entails a change in the currency used for bookkeeping and for the preparation of annual accounts.

3. Which body has the authority to change the currency used for bookkeeping and for the presentation of the annual accounts?

As a general rule, any provision referred to in the articles of association requires a decision by the general meeting of shareholders in order to be amended, whereas, conversely, any provision not included in the articles of association may be amended by a resolution of the administrative or management body.

Thus, the currency of the share capital, which always appears in the undertaking's articles of association, falls within the exclusive competence of the general meeting for any amendment. Conversely, the currency used for bookkeeping and for the presentation of the annual accounts, which does not generally appear in the undertaking's articles of association⁵, falls within the competence of the administrative or management body for any amendment.

It should be noted that such a change can only be made in extraordinary and justified circumstances (see Q&A CNC 22/026 (R)).

⁴ See: Q&A CNC 21/024 (R) entitled *"Change in accounting policies, measurement methods and estimates under LUX GAAP and LUX GAAP-FV"*.

⁵ It should be noted that if the articles of association contain a reference to the currency in which the books are kept and the annual accounts are presented, any change in this currency would then fall within the competence of the general meeting in the same way as a change in the currency of the share capital.

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Furthermore, with regard to the presentation of comparative figures in the event of a change in the currency used for bookkeeping and for the presentation of the annual accounts, reference should be made to the explanations provided in points 9 and 10.

4. For undertakings that choose to link the change in the currency of the share capital with the change in the currency used for bookkeeping and for the presentation of the annual accounts, what is the effective date of the change in currency?

For undertakings that choose to link the change in the currency of their share capital with the change in the currency used for bookkeeping and for the presentation of their annual accounts, the practice in Luxembourg consists of using the date of the notarial deed by which the shareholders or members decided to change the currency of the share capital as the effective date of the change in currency (e.g. for undertakings organised as “*société anonyme (SA)*” or as “*société à responsabilité limitée (S.à r.l.)*”), unless, of course, the notarial deed specifies another date for the change of currency used for bookkeeping and for the presentation of the annual accounts (e.g. from the first day of the following financial year or, retroactively, from the first day of the current financial year).

5. What is the effective date of the change in the currency used for bookkeeping and for the presentation of the annual accounts for undertakings that choose not to link this change with the change in the currency of the share capital?

For these undertakings, the date of change of the currency in which the books are kept and the annual accounts are presented, generally coincides either with the date of the meeting of the administrative or management body or the date of the written resolutions of those bodies, or with another date specified in the minutes or in the written resolutions of those bodies (e.g. : from the first day of the following financial year or – retroactively – from the first day of the current financial year).

6. Does a change in currency during the financial year necessarily imply two shortened financial years, i.e. first a closing of the annual accounts for the current financial year presented in the old currency and second a reopening of a new financial year in which the annual accounts are presented in the new currency?

As a general rule, when a change in the currency used for bookkeeping and for the presentation of the annual accounts occurs during the financial year, the conversion of the accounts is not accompanied by a statutory closing of the annual accounts prepared in the old currency and their reopening in the new currency, i.e. two consecutive shortened financial years.

It should be noted that if an undertaking wishes to proceed in this manner, and given that the duration and closing date of the financial year are generally specified in the articles of association, the undertaking must also amend its articles of association by changing the closing date of its financial year to make it coincide with the date of the change in the currency used for bookkeeping and for the presentation of the annual accounts (old currency) and then to realign it with the usual closing date (new currency).

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7. When is the best time to change the currency of bookkeeping and/or presentation of the annual accounts?

Even though the date for changing the currency of bookkeeping and of presentation of the annual accounts can be set freely – depending on the circumstances – by the general meeting of shareholders or members or by the administrative or management body, the fact remains that setting this date as the first day of the following financial year or, retroactively, as the first day of the current financial year greatly facilitates the conversion of the accounts and the transition from the old to the new currency of bookkeeping and of presentation of the annual accounts.

8. What are the conversion terms for the bookkeeping and for the annual accounts?

In the absence of specific provisions in the LUX GAAP and LUX GAAP-FV regimes regarding the conversion of the accounting records (books) and of the annual accounts into a new currency, it is recommended that all balance sheet and profit and loss account items be converted at the exchange rate applicable on the conversion date as specified in the notarial deed or in the resolutions of the administrative or management body.

While this method may appear conceptually questionable (e.g. : failure to recognise monetary vs. non-monetary items or short-term vs. long-term items in the balance sheet, failure to convert the profit and loss account at the exchange rate on the transaction date or – for the sake of simplification – at the average exchange rate), it nevertheless has the significant advantage of not generating conversion differences, which are generally of limited economic significance.

For the record, conversion differences are generated by the use of several different rates depending on the balance sheet and profit and loss account elements / captions concerned (e.g. closing rate for the conversion of monetary items in the balance sheet, historical rate for the conversion of non-monetary items in the balance sheet, average rate for expenses and income in the profit and loss account).

It should be noted that if the undertaking decides to apply a method other than that recommended in this section when converting its books and annual accounts into a new currency, it must apply that method consistently and disclose the conversion method in the notes to the annual accounts (see point 10).

9. With regard to comparative figures for the previous financial year, what should be done if the currency used for bookkeeping and for the presentation of annual accounts has changed during the current financial year?

With regard to comparative figures for the previous financial year, a distinction must be made between two types of undertakings: those that are required to submit standard information via the eCDF platform and those that are not and therefore enjoy greater flexibility in the presentation of their balance sheet and profit and loss account.

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Undertakings required to submit standard information on the eCDF platform will have no choice but to present comparative figures in the balance sheet and in the profit and loss account in the same currency as the figures for the current financial year, i.e. in the new currency used for bookkeeping and for the presentation of the annual accounts. To do this, it is recommended that the figures for the previous financial year be converted using the same rate as that applied to the figures for the current financial year, i.e. the rate in force on the date of conversion (i.e. rate on the date of the general meeting held before a notary, rate on the date of the resolutions of the administrative or management body or rate on the date on which the decision takes effect⁶).

In the notes to the annual accounts for the current financial year, third-party users should be informed of the rate used to convert the comparative figures and reminded that these amounts were presented in the former currency in the annual accounts for the previous financial year. In this regard, it is recommended that a table with three columns be presented in the notes, showing the figures for the current financial year and the previous financial year in the new currency, alongside the comparative figures for the previous financial year in the old currency as published in the annual accounts for the previous financial year.

For undertakings that are not required to submit standard information on the eCDF platform, it is recommended – in accordance with the principle of the intangibility (immutability) of the opening balance sheet (Art. 51, para. 1, point f) LRCS) – to present the balance sheet and profit and loss account in two distinct currencies: the old currency for the comparative figures for the previous financial year and the new currency for the figures for the current financial year. In addition, it is advisable to present a three-column table in the notes, showing the figures for the current financial year in the new currency and the figures for the previous financial year in the old currency, alongside the comparative figures for the previous financial year in the new currency.

10. What information must be provided in the notes to the accounts in relation to the change in the currency used for bookkeeping and for the presentation of the annual accounts?

Given the significance of a change in the currency used for bookkeeping and for the presentation of the annual accounts, it is important to provide relevant information in the notes to the accounts that contribute to the true and fair view objective.

CNC therefore considers that the notes to the annual accounts of the undertaking must include at least the following:

- a detailed note in the section on '*accounting policies and measurement bases*' explaining the change in currency, its effective date, the conversion method used (see point 8) and the reasons for the change;
- where applicable, a descriptive note explaining the accounting treatment of translation differences and their impact on net profit or, where applicable, on equity;
- a three-column table showing, for the balance sheet and the profit and loss account, the figures for the current financial year presented in both the old and new currencies (see point 9).

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⁶ For example, from the first day of the following financial year or – retroactively – from the first day of the current financial year (see points 4 and 5).

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Disclaimer

This document – provided as a courtesy – is an unofficial translation of the French original document entitled “Changement de devise de tenue de comptabilité et d’établissement des comptes annuels en régimes LUX GAAP et LUX GAAP-JV”. In case of discrepancy in interpretation, the French version shall prevail.

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- are of a general nature and do not refer to the specific situation of any natural or legal person;
- are intended to contribute to the development of accounting doctrine in accordance with Article 73(b) of the amended Law of 19 December 2002 on the trade and companies register, as well as on the bookkeeping and annual accounts of undertakings;
- only represent the opinion of the GIE CNC on a number of doctrinal and interpretative issues;
- do not prejudice the tax implications that may arise from the accounting treatments mentioned.

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