8 ICDS-VI (NEW) – THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

8.0 Legislative History

The Accounting Standards Committee set up in 2010 had recommended Tax Accounting Standard for the Effects of Changes in Foreign Exchange Rates [TAS (FE)].

ICDS-VI adopted the TAS (FE) and is applicable for assessment year 2016-17. ICDS-VI (new) supersedes ICDS-VI with effect from assessment year 2017-18 and makes certain changes in requirements [*See* **Para 8.4**]

8.1 Effective Date

ICDS-VI (New) shall come into force with effect from 1st day of April, 2016, and shall accordingly apply to the assessment year 2017-18 and subsequent assessment years. This is subject to the transitional provisions contained in Para 9 of ICDS-VI (New).

8.1-1 Transitional provisions

All foreign currency transactions undertaken on or after 1st day of April, 2016 shall be recognised in accordance with the provisions of this standard. [Para 9(1) of ICDS-VI (New)]

Exchange differences arising in respect of monetary items or non-monetary items, on the settlement thereof during the previous year commencing on the 1st day of April, 2016 or on conversion thereof at the last day of the previous year commencing on the 1st day of April, 2016, shall be recognised in accordance with the provisions of this standard after taking into account the amount recognised on the last day of the previous year ending on 31st March, 2016 for an item, if any, which is carried forward from said previous year. [Para 9(2) of ICDS-VI (New)]

The financial statements of foreign operations for the previous year commencing on the 1st day of April, 2016 shall be translated using the principles and procedures specified in this standard after taking into account the amount recognised on the last day of the previous year ending on 31st March, 2016 for an item, if any, which is carried forward from said previous year. [Para 9(3) of ICDS-VI (New)]

All forward exchange contracts existing on the 1st day of April, 2016 or entered on or after 1st day of April, 2016 shall be dealt with in accordance with the provisions of this standard after taking into account the income or expenses, if any, recognised in respect of said contracts for the previous year ending on or before 31st March, 2016. [Para 9(4) of ICDS-VI (New)]

8.2 Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of account. In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

8.3 Scope

This Income Computation and Disclosure Standard deals with:

(*a*) treatment of transactions in foreign currencies;

(*b*) translating the financial statements of foreign operations;

(*c*) treatment of foreign currency transactions in the nature of forward exchange contracts. [Para 1 of ICDS-VI (New)]

Part B of ICDS-VIII (New) dealing with securities held by scheduled banks/public financial institutions provides that these entities shall classify, recognize and measure securities held by them in accordance with the extant RBI guidelines. To this extent, the provisions of ICDS-VI (New) on effect of changes in foreign exchange rates relating to forward contracts shall not apply to these entities.

FAQ No. 10 of CBDT's *Circular No. 10/2017,* dated 23-3-2017 clarifies as under :

> **Question 10 : Which ICDS would govern derivative instruments?**
>
> Answer : ICDS-VI (subject to para 3 of ICDS-VIII) provides guidance on accounting for derivative contracts such as forward contracts and other similar contracts. For derivatives, not within the scope of ICDS-VI, provisions of ICDS-I would apply.

8.4 ICDS-VI (new) vs ICDS-VI

ICDS-VI (new) makes the following changes *vis-à-vis* ICDS-VI:

(*i*) ICDS-VI (New) omits the classification of foreign operations into integral foreign operations and non-integral foreign operations. Consequentially, the definitions of the terms "integral foreign operation" and "non-integral foreign operation" which were there in ICDS-VI have been omitted by ICDS-VI (New).

(*ii*) Financial statements of a foreign operation of a person (whether integral foreign operation or non-integral foreign operation) are to be translated as if the transactions of the foreign operation had been those of the person himself in accordance with the principles and procedures in paras 3 to 6 of ICDS-VI (New). In fact, ICDS-VI (New) omits the definitions of the terms "integral foreign operation" and "non-integral foreign operation".

(*iii*) ICDS-VI (New) requires that non-monetary item being inventory carried at net realizable value shall be reported using the exchange rate that existed when the value was determined. ICDS-VI required conversion of all non-monetary items at the closing rate.

8.5 ICDS-VI (New) vs (AS)11 *v.* Ind AS

Illustrative list of differences between ICDS VI and applicable AS is as follows :

Particulars	*ICDS*	*Accounting Standard (AS)*	*Ind AS*
Initial Recognition	There is no difference on Initial recognition, principle for initial recognition is same under ICDS, AS or Ind AS 21 [para 3(1), para 9 and para 21 of respective Standards].		
Recognition on settlement date or reporting date	There is no difference on subsequent reporting, principle for subsequent reporting is same under ICDS, AS or Ind AS [para 4, para 11 and para 23 of respective Standards].		

Particulars	*ICDS*	*Accounting Standard (AS)*	*Ind AS*
Foreign operations [Foreign Branch]	There is no bifurcation like Integral or non-integral foreign operation. Paras 3 to 6 of ICDS VI will be applicable for translation of financial statement of all foreign operations. **All resulting exchange differences are recognised as income or expense in that previous year**.	◆ *Integral foreign operation* Same as ICDS (Refer Paras 21 to 23 of AS 11) ◆ *Non integral foreign operation* Translation procedure is same; however the difference on translation is required to be **accumulated in a foreign currency translation reserve (FCTR) and on the disposal of the net investment in foreign operation;** it should be recognised as income or as expenses.	There is no bifurcation like integral and non-integral foreign operation; **however treatment on translation is on similar line of Indian GAAP.** Where such exchange differences shall be **recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal** of the net investment in accordance with paragraph 48. (Para 32 of Ind AS 21)
Exchange difference arising from foreign currency borrowings to the extent that they are regarded as adjustment to Interest cost on loan taken for capital purpose.		Borrowing cost includes exchange difference also for qualifying assets. [Para 4(*e*) of AS 16]	Same as AS 16
Forward exchange contract intended for trading, speculation, to hedge the foreign currency risk of a firm commitment, or highly probable forecast transaction	It is to be treated as Income or expense for the previous year since there is no such exclusion in scope of ICDS. However ICDS VI is subject to provision of Section 43A. So, the treatment would be same as Indian GAAP/Ind AS To be recognised at the time of settlement only. [Para 8(5) of ICDS VI]	Mark to market approach should be followed and the gain or loss on the contract is recognised in profit and loss. (Para 39 of AS 11)	It is to be recognised in the statement of profit and loss except in case of Equity Instrument designated as fair value through Other Comprehensive Income and Equity component of Cash flow hedge which is effective hedge.

Apparently, there are differences due to different treatment of: foreign operation, Forward trading or speculation contracts under AS/Ind AS and ICDS VI as discussed above.

Hence, accordingly in cases referred where there are differences, adjustment would be necessary while computing business income. Otherwise, there may not be any impact or effect.

The operation of the treatment by applying ICDS VI is illustrated hereafter:

ILLUSTRATION OF ICDS VI

Extract of details of X Pvt. Ltd.

(*a*) Profit for the Previous year as per books is Rs. 15 lakhs

(*b*) Profit and Loss A/c includes loss on forward contract held for trading Rs. 2 lakhs

(*c*) Translation gain of foreign operation as on reporting date Rs. 4 lakhs credited to Foreign Currency Translation Reserve A/C.

Computation of Profits & gains from business or profession will be as follows:

Particulars	*Amount (Rs. in lakh)*	*Amount (Rs. in lakh)*
Profit as per Books of Account		15
Adjustment under ICDS VI		
Add: Loss to be allowed at the time of settlement on forward contract	2	
Add: Translation gain on foreign operation	4	6
Income from business or profession		**21**

8.6/7 ICDS-VI (New) vs. The Act

In *Chamber of Tax Consultants* v. *Union of India* [2017] 87 taxmann.com 92, the Delhi High Court held that ICDS-VI which states that marked to market loss/gain in case of foreign currency derivatives held for trading or speculation purposes are not to be allowed, is not in consonance with the ratio laid down by the Supreme Court in *Sutlej Cotton Mills Limited* v. *CIT* (1979) 116 ITR 1, insofar as it relates to marked to market loss arising out of forward exchange contracts held for trading or speculation purposes.

It is, therefore, held to be *ultra vires* the Act and struck down as such. To overcome the judicial precedent in *Sutlej Cotton* (supra) a new section 43AA inserted in the Act to provide that, subject to the provisions of section 43A, any gain or loss arising on account of effects of changes in foreign exchange rates in respect of specified foreign currency transactions shall be treated as income or loss, which shall be computed in the manner provided in ICDS

Section 43A contains special provisions consequential to changes in rate of exchange of currency. Section 43A provides that notwithstanding anything contained in any other provision of this Act, where an assessee has acquired any asset in any previous year from a country outside India for the purposes of his business or profession and, in consequence of a change in the rate of exchange during any previous year after the acquisition of such asset, there is an increase or reduction in the liability of the assessee as expressed in Indian currency (as compared to the liability existing at the time of acquisition of the asset) at the time of making payment—

(*a*) towards the whole or a part of the cost of the asset; or

(*b*) towards repayment of the whole or a part of the moneys borrowed by him from any person, directly or indirectly, in any foreign currency specifically for the purpose of acquiring the asset along with interest, if any,

the amount by which the liability as aforesaid is so increased or reduced during such previous year and which is taken into account at the time of making the payment, irrespective of the method of accounting adopted by the assessee, shall be added to, or, as the case may be, deducted from—

(*i*) the actual cost of the asset as defined in clause (*1*) of section 43; or

(*ii*) the amount of expenditure of a capital nature referred to in clause (*iv*) of sub-section (1) of section 35; or

(*iii*) the amount of expenditure of a capital nature referred to in section 35A; or

(*iv*) the amount of expenditure of a capital nature referred to in clause (*ix*) of sub-section (1) of section 36; or

(*v*) the cost of acquisition of a capital asset (not being a capital asset referred to in section 50) for the purposes of section 48, and the amount arrived at after such addition or deduction shall be taken to be the actual cost of the asset or the amount of expenditure of a capital nature or, as the case may be, the cost of acquisition of the capital asset as aforesaid:

Provided that where an addition to or deduction from the actual cost or expenditure or cost of acquisition has been made under this section, as it stood immediately before its substitution by the Finance Act, 2002, on account of an increase or reduction in the liability as aforesaid, the amount to be added to, or, as the case may be, deducted under this section from, the actual cost or expenditure or cost of acquisition at the time of making the payment shall be so adjusted that the total amount added to, or, as the case may be, deducted from, the actual cost or expenditure or cost of acquisition, is equal to the increase or reduction in the aforesaid liability taken into account at the time of making payment.

Explanation 1.—In this section, unless the context otherwise requires,—

(*a*) "rate of exchange" means the rate of exchange determined or recognised by the Central Government for the conversion of Indian currency into foreign currency or foreign currency into Indian currency;

(*b*) "foreign currency" and "Indian currency" have the meanings respectively assigned to them in section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999).

Explanation 2.—Where the whole or any part of the liability aforesaid is met, not by the assessee, but, directly or indirectly, by any other person or authority, the liability so met shall not be taken into account for the purposes of this section.

Explanation 3.—Where the assessee has entered into a contract with an authorised dealer as defined in section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999), for providing him with a specified sum in a foreign currency on or after a stipulated future date at the rate of exchange specified in the contract to enable him to meet the whole or any part of the liability aforesaid, the amount, if any, to be added to, or deducted from, the actual cost of the asset or the amount of expenditure of a capital nature or, as the case may be, the cost of acquisition of the capital asset under this section shall, in respect of so much of the sum specified in the contract as is available for discharging the liability aforesaid, be computed with reference to the rate of exchange specified therein.

Rule 115 provides that the rate of exchange for the calculation of the value in rupees of any income accruing or arising or deemed to accrue or arise to the assessee in foreign currency or received or deemed to be received by him or on his behalf in foreign currency shall be the telegraphic transfer buying rate of such currency as on the specified date.

Explanation : For the purposes of this rule,—

(*1*) "telegraphic transfer buying rate" shall have the same meaning as in the *Explanation* to rule 26;

(*2*) "specified date" means—

(*a*) in respect of income chargeable under the head "Salaries", the last day of the month immediately preceding the month in which the salary is due, or is paid in advance or in arrears;

(*b*) in respect of income by way of "interest on securities", the last day of the month immediately preceding the month in which the income is due;

(*c*) in respect of income chargeable under the heads "Income from house property", "Profits and gains of business or profession" [not being income referred to in clause (*d*)] and "Income from other sources" (not being income by way of dividends and "Interest on securities"), the last day of the previous year of the assessee;

(*d*) in respect of income chargeable under the head "Profits and gains of business or profession" in the case of a non-resident engaged in the business of operation of ships, the last day of the month immediately preceding the month in which such income is deemed to accrue or arise in India;

(*e*) in respect of income by way of dividends, the last day of the month immediately preceding the month in which the dividend is declared, distributed or paid by the company;

(*f*) in respect of income chargeable under the head "Capital gains", the last day of the month immediately preceding the month in which the capital asset is transferred :

Provided that the specified date, in respect of income referred to in sub-clauses (*a*) to (*f*) payable in foreign currency and from which tax has been deducted at source under rule 26, shall be the date on which the tax was required to be deducted under the provisions of Chapter XVII-B.

(2) Nothing contained in sub-rule (1) shall apply in respect of income referred to in clause (*c*) of the *Explanation* to sub-rule (1) where such income is received in, or brought into India by the assessee or on his behalf before the specified date in accordance with the provisions of the Foreign Exchange Regulation Act, 1973.

In *Chamber of Tax Consultants* v. *Union of India* [2017] 87 taxmann.com 92, the Delhi High Court held that ICDS-VI which states that marked to market loss/gain in case of foreign currency derivatives held for trading or speculation purposes are not to be allowed, is not in consonance with the ratio laid down by the Supreme Court in *Sutlej Cotton Mills Limited* v. *CIT* (1979) 116 ITR 1 (SC), insofar as it relates to marked to market loss arising out of forward exchange contracts held for trading or speculation purposes. It is, therefore, held to be *ultra vires* the Act and struck down as such. To overcome the judicial precedent in *Sutlej Cotton* (supra) a new section 43AA inserted in the Act to provide that, subject to the provisions of section 43A, any gain or loss arising on account of effects of changes in foreign exchange rates in respect of specified foreign currency transactions shall be treated as income or loss, which shall be computed in the manner provided in ICDS.

Section 43AA provides as under:

- Subject to the provisions of section 43A, any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss, as the case may be, and such gain or loss shall be computed in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145(2).
- The above provision shall apply to gain or loss arising on account of the effects of change in foreign exchange rates shall be in respect of all foreign currency transactions, including those relating to—
  (*i*) monetary items and non-monetary items;
  (*ii*) translation of financial statements of foreign operations;

(*iii*) forward exchange contracts;

(*iv*) foreign currency translation reserves.

Supreme Court in case of *Sutlej Cotton Mills Ltd.* v. *CIT* [1979] 116 ITR 1, 13 held that exchange rate difference pertaining to capital account transaction could be considered as capital receipt and accordingly, not liable to tax and the relevant observations are as follows:

> "The law may, therefore, now be taken to be well settled that where profit or loss arises to an assessee on account of appreciation or depreciation in the value of foreign currency held by it, on conversion into another currency, such profit or loss would ordinarily be trading profit or loss if the foreign currency is held by the assessee on revenue account or as a trading asset or as part of circulating capital embarked in the business. But, if on the other hand, the foreign currency is held as a capital asset or as fixed capital, such profit or loss would be of capital nature."

The section mandates, subject to section 43A, any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss.

The section overcomes the decision of Supreme Court (*supra*). Although Finance Act, 2018 does not make any amendment in definition of income, which includes profits and gains, applicable Accounting Standards, as such, regard gain or loss on account of an exchange rate difference as part of Statement of profit and loss and require recognition as income or profit or loss.

Accordingly, any gain or loss due to exchange rate difference pertaining to any capital account transaction of business or profession should be chargeable to tax as business income.

Needless to say, the amendment does not affect computation of income under other heads of income implying that the exchange rate difference gain or loss pertaining to capital account transaction not chargeable as business income may not be liable to tax having regard to above Supreme Court decision.

8.8 Definitions

The following terms are defined in ICDS-VI (New) as under :

"Average rate" is the mean of the exchange rates in force during a period.

"Closing rate" is the exchange rate at the last day of the previous year.

"Exchange difference" is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency of a person at different exchange rates.

"Exchange rate" is the ratio for exchange of two currencies.

"Foreign currency" is a currency other than the reporting currency of a person.

"Foreign operations of a person" is a branch, by whatever name called, of that person, the activities of which are based or conducted in a country other than India.

"Foreign currency transaction" is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when a person:—

(*i*) buys or sells goods or services whose price is denominated in a foreign currency; or

(*ii*) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

(*iii*) becomes a party to an unperformed forward exchange contract; or

(*iv*) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

"Forward exchange contract" means an agreement to exchange different currencies at a forward rate, and includes a foreign currency option contract or another financial instrument of a similar nature;

"Forward rate" is the specified exchange rate for exchange of two currencies at a specified future date;

"Indian currency" shall have the meaning as assigned to it in section 2 of the Foreign Exchange Management Act, 1999;

"Monetary items" are money held and assets to be received or liabilities to be paid in fixed or determinable amounts of money. Cash, receivables, and payables are examples of monetary items;

"Non-monetary items" are assets and liabilities other than monetary items. Fixed assets, inventories, and investments in equity shares are examples of non-monetary items;

"Reporting currency" means Indian currency except for foreign operations where it shall mean currency of the country where the operations are carried out.

Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

8.9 Foreign currency transactions

8.9-1 Initial Recognition

A foreign currency transaction shall be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. [Para 3(1) of ICDS-VI (New)]

An average rate for a week or a month that approximates the actual rate at the date of the transaction may be used for all transactions in each foreign currency occurring during that period. If the exchange rate fluctuates significantly, the actual rate at the date of the transaction shall be used. [Para 3(2) of ICDS-VI (New)]

8.9-2 Conversion at Last Date of Previous Year

At last day of each previous year:—

(*a*) foreign currency monetary items shall be converted into reporting currency by applying the closing rate;

(*b*) where the closing rate does not reflect with reasonable accuracy, the amount in reporting currency that is likely to be realised from or required to disburse, a foreign currency monetary item owing to restriction on remittances or the closing rate being unrealistic and it is not possible to effect an exchange of currencies at that rate, then the relevant monetary item shall be reported in the reporting currency at the amount which is likely to be realised from or required to disburse such item at the last date of the previous year; and

(*c*) non-monetary items in a foreign currency shall be converted into reporting currency by using the exchange rate at the date of the transaction.

(*d*) non-monetary item being inventory carried at net realisable value denominated in a foreign currency shall be reported using the exchange rate that existed when the value was determined. [Para 4 of ICDS-VI (New)]

8.9-3 Recognition of Exchange Differences

In respect of monetary items, exchange differences arising on the settlement thereof or on conversion thereof at last day of the previous year shall be recognised as income or as expense in that previous year. [Para 5(*i*) of ICDS-VI (New)]

In respect of non-monetary items, exchange differences arising on conversion thereof at the last day of the previous year shall not be recognised as income or as expense in that previous year. [Para 5(*ii*) of ICDS-VI (New)]

8.9-4 Exceptions to Paragraphs 3, 4 and 5

Notwithstanding anything contained in **paragraphs 8.8-1** to **8.8-3** above, initial recognition, conversion and recognition of exchange difference shall be subject to provisions of section 43A of the Act or Rule 115 of Income-tax Rules, 1962, as the case may be. [Para 6 of ICDS-VI (new)]

8.10 Financial statements of foreign operations

The financial statements of a foreign operation shall be translated using the principles and procedures in paras 3 to 6 of ICDS-VI (New) [*see* **Paras 8.8-1** to **8.8-4** above] as if the transactions of the foreign operation had been of the person himself.

8.11 Forward exchange contracts

Any premium or discount arising at the inception of a forward exchange contract shall be amortised as expense or income over the life of the contract. Exchange differences on such a contract shall be recognised as income or as expense in the previous year in which the exchange rates change. Any profit or loss arising on cancellation or renewal shall be recognised as income or as expense for the previous year. [Para 8(1) of ICDS-VI (New)]

The above provisions shall apply provided that the contract:

(*a*) is not intended for trading or speculation purposes; and

(*b*) is entered into to establish the amount of the reporting currency required or available at the settlement date of the transaction. [Para 8(2) of ICDS-VI (New)]

In *Chamber of Tax Consultants* v. *Union of India* [2017] 87 taxmann.com 92, the Delhi High Court held that ICDS-VI which states that marked to market loss/gain in case of foreign currency derivatives held for trading or speculation purposes are not to be allowed, is not in consonance with the ratio laid down by the Supreme Court in *Sutlej Cotton Mills Limited* v. *CIT* (1979) 116 ITR 1, insofar as it relates to marked to market loss arising out of forward exchange contracts held for trading or speculation purposes. It is, therefore, held to be *ultra vires* the Act and struck down as such. To overcome the judicial precedent in *Sutlej Cotton* (supra) a new section 43AA inserted in the Act to provide that, subject to the provisions of section 43A, any gain or loss arising on account of effects of changes in foreign exchange rates in respect of specified foreign currency transactions shall be treated as income or loss, which shall be computed in the manner provided in ICDS

Section 43AA provides as under:

- Subject to the provisions of section 43A, any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss, as the case may be,
- Such gain or loss shall be computed in accordance with the ICDSs
- Above provisions apply to gain or loss arising on account of the effects of change in foreign exchange rates in respect of all foreign currency transactions, including those relating to—
  - (*i*) monetary items and non-monetary items;
  - (*ii*) translation of financial statements of foreign operations;
  - (*iii*) forward exchange contracts;
  - (*iv*) foreign currency translation reserves.

The above provisions shall not apply to the contract that is entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. For this purpose, firm commitment, shall not include assets and liabilities existing at the end of the previous year. [Para 8(3) of ICDS-VI (New)]

The premium or discount that arises on the contract is measured by the difference between the exchange rate at the date of the inception of the contract and the forward rate specified in the contract. Exchange difference on the contract is the difference between:

(*a*) the foreign currency amount of the contract translated at the exchange rate at the last day of the previous year, or the settlement date where the transaction is settled during the previous year; and

(*b*) the same foreign currency amount translated at the date of inception of the contract or the last day of the immediately preceding previous year, whichever is later. [Para 8(4) of ICDS-VI (New)]

Premium, discount or exchange difference on contracts that are intended for trading or speculation purposes, or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction shall be recognised at the time of settlement. [Para 8(5) of ICDS-VI (New)]

8.12 Disclosure requirements

ICDS-VI (new) stipulates no disclosure requirements. Hence, new Item No. (*f*) of Clause 13 of Form No. 3CD also requires no disclosures in respect of ICDS-VI.

8.13 Taxability of Foreign Currency Translation Reserve (FCTR)

In *Chamber of Tax Consultants* v. *Union of India* [2017] 87 taxmann.com 92, the Delhi High Court held that the losses/gains arising by valuation of monetary assets and liabilities of the foreign operations as at the end of the year cannot be treated as real income. It is only in the nature of notional or hypothetical income which cannot be even otherwise subject to tax. To overcome this Judicial decision, section 43AA was inserted in the Act by the Finance Act w.r.e.f. AY 2017-18.

Section 43AA provides as under :

- Subject to the provisions of section 43A, any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss, as the case may be.
- Such gain or loss shall be computed in accordance with the ICDSs.
- Above provisions apply to gain or loss arising on account of the effects of change in foreign exchange rates in respect of all foreign currency transactions, including those relating to—

(*i*) monetary items and non-monetary items;

(*ii*) translation of financial statements of foreign operations;

(*iii*) forward exchange contracts;

(*iv*) foreign currency translation reserves.

FAQ No. 16 of CBDT's Circular No. 10/2017, dated 23-3-2017 clarifies as under :

> **Question 16 : What is the taxability of opening balance as on 1st day of April, 2016 of Foreign Currency Translation Reserve (FCTR) relating to non-integral foreign operation, if any, recognised as per Accounting Standards (AS) 11?**
>
> Answer : FCTR balance as on 1 April 2016 pertaining to exchange differences on monetary items for non-integral operations, shall be recognised in the previous year relevant for assessment year 2017-18 to the extent not recognised in the income computation in the past.