FA Module 18: Foreign currency transactions (overview)

(The attached PDF file has better formatting.)

Reading: chapter 16 §2 Foreign currency transactions, *excluding* subsections 2.2 and 2.3

Insurance (and especially reinsurance) is a global industry. Many states regulate insurers and some require them to be domiciled in the state. Insurer groups may have a parent domiciled in one state and subsidiaries in other states. Premiums and claims in one currency are translated into the currency of the parent.

Some reinsurers sell insurance contracts globally. Incurred claims are entered into the financial statements at the accident date in the presentation currency but may be paid years later, with different foreign currency exchange rates.

This module deals with foreign currency transactions: a firm in one country sells goods or services in another country or imports goods from another country, with the countries using different currencies (the reinsurance example above). The next module deals with foreign currency translations: a firm in one country owns a subsidiary in another country.

Economists seek to understand the influences on exchange rates movements (purchasing power parity; interest rate parity). This course explains how exchange rate movements affect financial statements.

Know the differences among the presentation currency, local currency, and functional currency. Final exam problems may give import purchases, export sales, balance sheet dates, and foreign currency exchange rates, to determine the effect of foreign currency transactions on operating income.

This module is short; the next module (translation of foreign currency financial statements) is long. You must read chapter 16 §3, "translation of foreign currency financial statements," several times to master the material. Read the section once now, and again for the next module.