Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

[Third Party Communication:
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Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
CC:INTL:BR5
PLR-101926-21

Date:
July 21, 2021

Legend

Company	=
Date A	=
Business X	=
Business Y	=
MM	=
D	=
E	=
F	=
G	=

Dear :

This letter responds to your letter dated Date A, requesting a ruling granting consent for Company to change its spot rate convention under Treas. Reg. §1.988-1(d)(3).

The ruling contained in this letter is based on information and representations submitted by you and your representatives and accompanied by a penalties of perjury statement executed by the appropriate party. While this office has not verified any of the materials submitted in support of the ruling request, it is subject to verification on examination.

Facts

Company represents the following facts:

Company is a domestic corporation and the parent of a U.S. consolidated group and operates Business X and Business Y businesses. The business segments of Company are MM. Company operates in over D currencies and the businesses have over $E of revenue per year in currencies other than the U.S. dollar.

Company proposes to change its existing spot rate convention for payables and receivables denominated in a nonfunctional currency for goods and services bought and sold in the ordinary course of business under Treas. Reg. §1.988-1(d)(3). Company is changing the spot rate convention to ensure the accuracy of relevant financial statements and U.S. tax reporting for these items. Company is requesting permission to change its spot rate convention for U.S. tax purposes to match the method that Company plans to use for financial accounting purposes.

Under Company's current method, Company uses a single monthly exchange rate for each currency that is determined before the beginning of each month in order to permit timely updating of its internal automated accounting systems. Company calculates the monthly exchange rate using the average of the spot rate and the 30-day forward rate as of 8 a.m. Eastern Time on the next-to-last Thursday of the preceding fiscal month. The spot rate and 30-day forward rate are obtained from pre-selected and consistently applied market information and data services (for example, Bloomberg). The 30-day forward rate will be determined by adding the 30-day forward points to the spot rate unless the currency (1) is pegged to the U.S. dollar, in which case the pegged rate will be used, or (2) has poor liquidity, in which case the rate will be derived from interest rate data obtained from the same market information and data services by (a) obtaining the spot rate for the currency, the quarterly or, if the quarterly rate is not available, annual deposit interest rate for the currency, and the U.S. dollar deposit interest rate for the same period, (b) converting the second and third rates to monthly rates, (c) deriving the interest rate differential by dividing 1 plus the relevant currency rate by one plus the U.S. dollar rate and then subtracting one from that result, and (d) calculating the 30-day forward rate by multiplying the currency's spot rate by the interest rate differential.

Due to improvements in its financial accounting software, Company is now able to implement the monthly exchange rate closer to the beginning of the month than the current spot rate convention mandates. As a result, Company proposes to update the dates in its existing methodology to be closer to the beginning of the month to ensure accuracy of its financial data. Company would use the proposed method for financial accounting, as well as for U.S. federal income tax purposes. Under the proposed method, Company will calculate the monthly exchange rate using the average of the spot rate and the 30-day forward rate as of 8 a.m. Eastern Time on the third-to-last business day, counting only days that the markets are open (the "30-day average rate"). Other than the date of determination, the spot rate and 30-day forward rate will be determined in the same way as they are under the current method. To take into account distortions that might occur in the rare circumstances of extreme worldwide currency fluctuation, for each currency, Company will reassess the 30-day average rate on the 20th day of the current month to determine the estimated impact of changes in currency rates on the monthly revenues of Company. It will determine the estimated impact by multiplying, for each currency, (1) the difference between the 30-day average rate and the average of the daily rates for the first 20 days of the current month during which the market is open (the “20-day average rate”) divided by the 30-day average rate (the percentage change in the currency) by (2) Company’s average monthly revenues (the resulting amount for a currency, the “revenue difference”). For each currency, the rates for the 20-day average rate will be determined in the same manner as the spot rate for the 30-day average rate. Company’s average monthly revenues for a currency is Company’s prior year annual revenue for that currency stated in U.S. dollars divided by twelve to obtain a 1-month revenue amount. The currency used for the monthly revenues is determined by assigning a single currency to all business entities in each country or political subdivision based on the official currency of that country or political subdivision (whether or not such entity has that currency as its functional currency) on the calculation date. The revenue differences for all the currencies are added together, then divided by the sum of the monthly revenues for all the currencies. If the result is greater than F%, then for each currency that has an absolute value revenue difference greater than $G, the 20-day average rate is used for the remainder of the month beginning with the first business day after the 20th day of the month. For the currencies that do not meet the $G threshold or for all currencies if the result does not exceed F%, then the 30-day average rate continues to be used for the remainder of the month.

Law and Analysis

Treas. Reg. §1.988-1(d)(3) provides that if consistent with the taxpayer’s financial accounting, a taxpayer may utilize a spot rate convention determined at intervals of one quarter year or less for purposes of computing exchange gain or loss with respect to payables and receivables denominated in a nonfunctional currency that are incurred in the ordinary course of business with respect to the acquisition or sale of goods or the obtaining or performance of services. Treas. Reg. §1.988-1(d)(3) further provides that the use of a spot rate convention cannot be changed without the consent of the Commissioner.

The proposed rate, which will be calculated monthly using published rate information from consistent sources, will be used by Company for both financial accounting purposes and U.S. tax purposes provided the requested ruling is granted.

Ruling

Based solely on the information provided and the facts set forth above, Company may change its spot rate convention to the proposed method for purposes of computing exchange gain or loss with respect to payables and receivables denominated in a nonfunctional currency that are incurred in the ordinary course of business with respect to the acquisition or sales of goods or the obtaining or performance of services in accordance with Treas. Reg. §1.988-1(d)(3).

Caveats

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any item discussed or referenced in this letter or the method for computing exchange gain or loss for any item not addressed by this ruling or for any taxpayer other than Company, including whether the pegged rate is appropriate for any currency pegged to the U.S. dollar in accordance with Treas. Reg. §1.988-1(d)(4) (for example, whether the pegged rate is the spot rate for purposes of these calculations).

Procedural Information

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Pursuant to a power of attorney on file in this office, a copy of this ruling is being furnished to your authorized representatives.

Sincerely,

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Anthony J. Marra
Senior Counsel, Branch 5
Office of Associate Chief Counsel (International)

cc: