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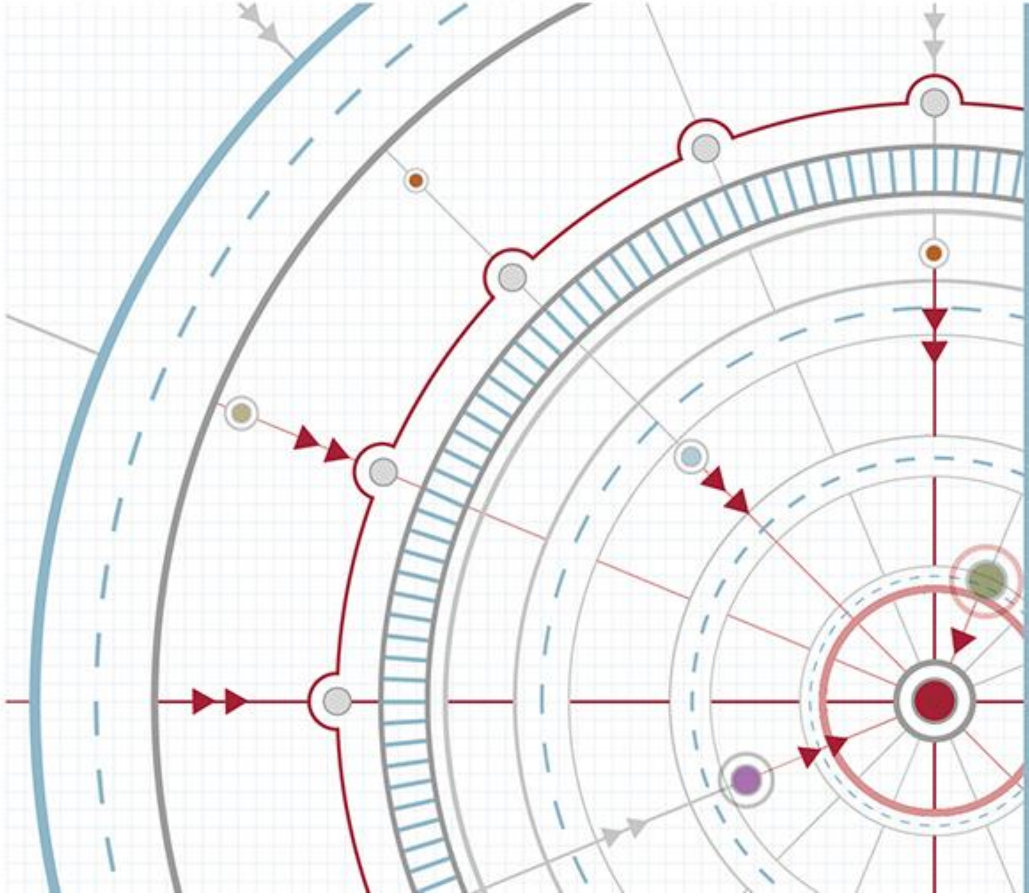

Emerging Economies Group
March 2019

Agenda paper 7

Lack of exchangeability
IAS 21 *The Effects of Changes in Foreign Exchange Rates*

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Objective of the discussion

- Update EEG members on the IFRS Interpretations Committee (Committee)’s work on IAS 21 *The Effect of Changes in Foreign Exchange Rates—Lack of exchangeability.*

- Obtain EEG members views on the staff’s proposals on possible standard-setting options.

Background

- This paper provides an overview of the agenda papers 7A–7C included for this meeting:
  - IFRIC Update September 2018:
    - Agenda Decision: *Determination of the exchange rate when there is a long-term lack of exchangeability*
  - November 2018 IFRIC Agenda papers on lack of exchangeability:
    - Agenda paper 8—*Cover memo and overall approach*
    - Agenda paper 8A—*Defining exchangeability and a lack of exchangeability*
    - Agenda paper 8B—*Requirements when there is a lack of exchangeability*

Timeline

- Discussions of the IFRS Interpretations Committee (Committee):

2018

May

Preliminary discussion

June

Tentative Agenda Decision

– Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21)

September

Agenda Decision

– Determination of the Exchange Rate when there is a Long-term Lack of Exchangeability (IAS 21)

November

Research possible standard-setting

– Research possible narrow-scoped standard-setting aimed at addressing the exchange rate to use when the spot exchange rate (as defined in IAS 21) is not observable

2019

Next Steps

– Committee to decide whether to recommend the Board undertake standard-setting

September 2018 Agenda decision

In September 2018 the Committee published an agenda decision:

- Addresses limited circumstances in which there is a long-term lack of exchangeability such as those existing in Venezuela
- Notes that:
  - IAS 21 defines the closing rate as the 'spot exchange rate' at the end of the reporting period; and the 'spot exchange rate' as the exchange rate for immediate delivery
  - An entity assesses whether the official exchange rate meets the definition of the closing rate—ie is the rate to which the entity would have access at the end of the reporting period?
- Continuous assessment of the facts and circumstances
- Highlighted importance of disclosure requirements

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IFRIC Update September 2018

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings.

Decisions on an IFRIC Interpretation become final only after the Committee has taken a formal vote on the Interpretation. IFRIC Interpretations require ratification by the International Accounting Standards Board (Board).

The Committee met in London on 11–12 September 2018, and discussed:

Committee's agenda decisions

- Expenditures on a Qualifying Asset (IAS 23 *Borrowing Costs*)—Agenda Paper 9A
- Borrowing Costs on Land (IAS 23 *Borrowing Costs*)—Agenda Paper 9B
- Determination of the Exchange Rate when there is a Long-term Lack of Exchangeability (IAS 21 *The Effects of Changes in Foreign Exchange Rates*)—Agenda Paper 10
- Classification of a Particular Type of Dual Currency Bond (IFRS 9 *Financial Instruments*)—Agenda Paper 11

Research into possible standard-setting

At the November 2018 Committee meeting, staff presented 2 alternatives:

Alternative A

- Develop requirements on the exchange rate an entity uses in the limited circumstances described in the September 2018 Agenda Decision

Alternative B

- More broadly consider when a lack of exchangeability could arise and develop requirements for an entity to use in those circumstances

Staff recommend alternative B as it would address a wider set of circumstances - Committee members preliminarily agreed with this alternative.

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The Committee met in London on 27 November 2018, and discussed:

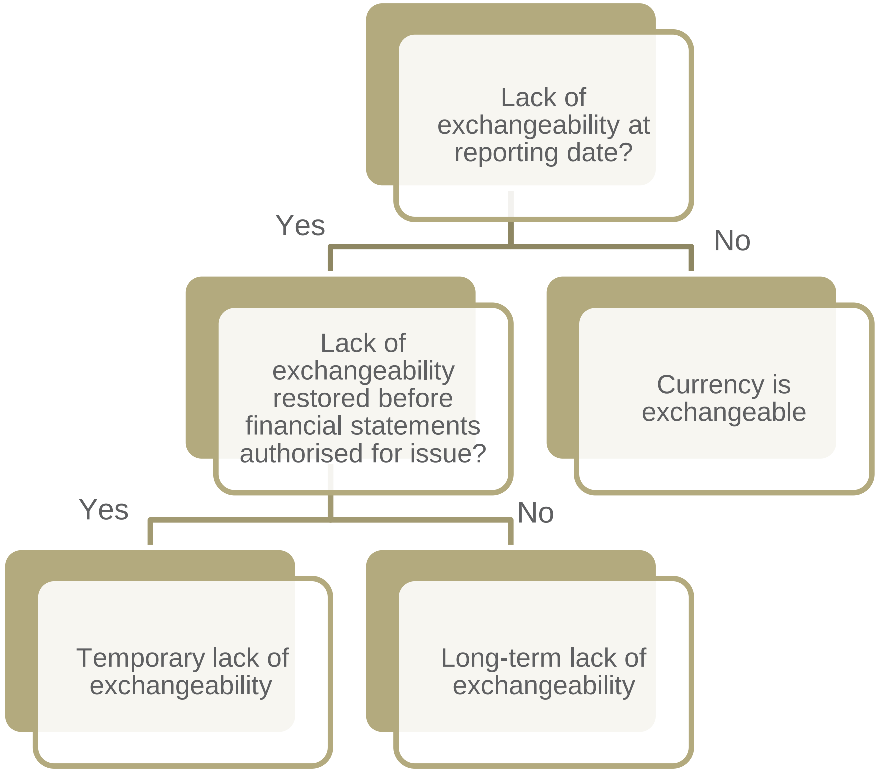
Items on the current agenda

- Lack of exchangeability (IAS 21 *The Effects of Changes in Foreign Exchange Rates*)—Agenda Papers 8–8B

Committee's tentative agenda decisions

- Sale of output by a joint operator (IFRS 11 *Joint Arrangements*)—Agenda Paper 2
- Physical settlement of contracts to buy or sell a non-financial item (IFRS 9 *Financial Instruments*)—Agenda Paper 3
- Over time transfer of constructed good (IAS 23 *Borrowing Costs*)—Agenda Paper 4
- Customer's right to access the supplier's software hosted on the cloud (IAS 38 *Intangible Assets*)—Agenda Paper 5
- Credit enhancement in the measurement of expected credit losses (IFRS 9 *Financial Instruments*)—Agenda Paper 6
- Curing of a credit-impaired financial asset (IFRS 9 *Financial Instruments*)—Agenda Paper 7

Staff's proposed definition for a temporary and long-term lack of exchangeability



Committee members preliminary views

- Mixed views expressed. Some members said:
  - Temporary lack of exchangeability should only extend over a short period of time while staff's proposal would also capture other situations
  - The date of issuance of financial statements might affect whether lack of exchangeability is temporary or long-term thus affecting comparability between entities

How to define a exchangeability (and a lack of exchangeability)

- Staff's proposals on key considerations to operationalise the definition of exchangeability

  - What if an entity is able, but does not intend, to exchange a currency?
  - Which means of accessing foreign currency does an entity consider?
  - What is the purpose for which an entity obtains foreign currency?
  - What if the entity is able to exchange only some amounts of foreign currency?

- Committee's preliminary views

- Generally agreed with staff's analysis and said:
  - The entity considers its ability, not its intention;
  - The entity considers only legal markets or mechanisms;
  - The purpose for which an entity obtains foreign currency depends on whether the entity is reporting foreign currency transactions in the functional currency or whether it is using a presentation currency other than the functional currency; and
  - Exchangeability exists if the entity is able to obtain more than an insignificant amount of foreign currency for the intended purpose.

Proposed requirements when there is a lack of exchangeability

- Staff proposals
  - Temporary lack of exchangeability
    - Use the first subsequent exchange rate (consistent with IAS 21.26)
    - Existing disclosures are sufficient
  - Long-term lack of exchangeability
    - Estimate the spot exchange rate
    - No prescription of estimation model to be used
    - Additional disclosures in relation to the estimation process

- Committee's preliminary views
  - Mixed views
    - Using a first subsequent rate may not provide relevant information in some circumstances
    - Additional disclosures might be needed
  - General agreement
    - Acknowledgement that estimating an exchange rate may be challenging
    - Principle-based approach for disclosures

Questions for EEG members

- Do EEG members have:
  - any comments or advice on the staff’s proposals?
  - any comments regarding application of the staff’s proposals?

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