IFRS

STAFF PAPER

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IASB® meeting

Project	**Lack of Exchangeability (Proposed amendments to IAS 21)**
Paper topic	Feedback Summary

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Introduction and purpose

1. In April 2021, the International Accounting Standards Board (IASB) published the Exposure Draft *Lack of Exchangeability*, which proposed to amend IAS 21 *The Effects of Changes in Foreign Exchange Rates.* The comment period ended in September 2021.

2. The purpose of this paper is to provide the IASB with a summary of feedback on the Exposure Draft.[1] We are not asking the IASB to make any decisions at this meeting. However, to help us develop papers for future IASB meetings, we will ask IASB members for their initial thoughts on the feedback and to comment on any feedback that is unclear, provides new information or needs further research.

Structure of the paper

3. This paper includes:
   (a) background (paragraphs 5–7);
   (b) feedback overview (paragraphs 8–62):
      (i) assessing exchangeability between two currencies (Question 1);

[1] This paper does not summarise drafting suggestions, which we will consider in drafting any final amendments to IAS 21.

(ii) determining the spot exchange rate when exchangeability is lacking (Question 2);

(iii) disclosure (Question 3); and

(iv) transition (Question 4);

(c) next steps (paragraph 63); and

(d) question for the IASB.

4. This paper uses the following terms to describe the extent to which feedback was provided by respondents:

Term	*Extent of response among respondents*
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

Background

5. IAS 21 generally requires the use of a spot exchange rate when an entity reports foreign currency transactions or a foreign operation's results and financial position in its financial statements. A spot exchange rate is the exchange rate for immediate delivery. IAS 21 specifies the exchange rate to use in reporting foreign currency transactions when exchangeability between two currencies is temporarily lacking. However, IAS 21 does not specify what an entity is required to do when a lack of exchangeability is not temporary.

6. The IFRS Interpretations Committee (Committee) considered how an entity determines the exchange rate to use in translating a foreign operation's results and financial position when the foreign operation's functional currency is not exchangeable into the presentation currency. The Committee was informed of diverse views on how to determine whether a currency is exchangeable into another currency

and the exchange rate to use when it is not. Although circumstances in which a currency is not exchangeable might arise relatively infrequently, when they do arise economic conditions can deteriorate rapidly. In those circumstances, the diverse views on the application of IAS 21 could lead to material differences in the financial statements of entities affected by a currency that lacks exchangeability. The Committee therefore recommended that the IASB add requirements to IAS 21 for an entity to determine whether a currency is exchangeable into another currency and the accounting requirements to apply when it is not. The IASB agreed with the Committee's recommendation.

7. The Exposure Draft asked respondents whether they agree with the IASB's proposals to amend IAS 21 to:

   (a) set out factors an entity considers in assessing exchangeability and specify how those factors affect the assessment (Question 1);

   (b) specify how an entity determines the spot exchange rate when a currency is not exchangeable into another currency (Question 2);

   (c) require an entity to disclose information that would enable users of its financial statements to understand how a lack of exchangeability between two currencies affects, or is expected to affect, its financial performance, financial position and cash flows (Question 3); and

   (d) require an entity to apply the amendments from the date of initial application and permit earlier application (Question 4).

Feedback overview

8. The IASB received 48 comment letters. Responses were received from national standard-setters, regulators, accountancy bodies, accounting firms, preparers and individuals. The chart below groups the responses by type of respondent and geographical region.

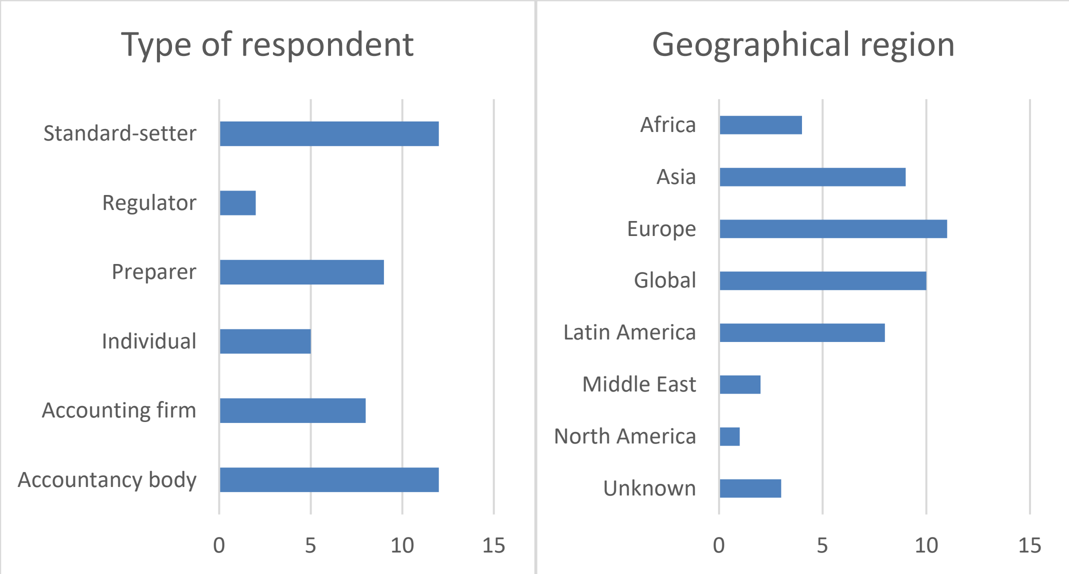

Chart 1— Responses by type of respondent and geographical region

Assessing exchangeability between two currencies (Question 1)

Background

9. Question 1 in the Exposure Draft asked respondents whether they agree with the proposal to amend IAS 21 to set out factors an entity considers in assessing exchangeability and specify how those factors affect the assessment. Paragraphs BC4–BC16 of the Exposure Draft explain the IASB's rationale for this proposal. In particular:

   (a) paragraph 8 of the draft amendments to IAS 21 adds a definition of 'exchangeable' which states:

   > A currency is *exchangeable* into another currency when an entity is able to exchange that currency for the other currency.

   (b) paragraph BC4 of the Exposure Draft states:

   > Many factors influence exchangeability between two currencies. To make the definition proposed in paragraph 8 operational and to help entities apply that definition consistently, the [IASB] is proposing to specify when an entity is able (and thus unable) to exchange a currency for another currency. In identifying the factors required to be considered in making the assessment, the [IASB] considered:

(a) what time frame for obtaining the other currency does an entity consider (paragraph BC5)?

(b) what if an entity is able to obtain the other currency, but does not intend to do so (paragraph BC6)?

(c) which markets or exchange mechanisms for obtaining the other currency does an entity consider (paragraph BC7)?

(d) what is the purpose for which an entity obtains the other currency (paragraphs BC8–BC12)?

(e) what if an entity is able to obtain only limited amounts of the other currency (paragraphs BC13–BC16)?

Respondents' comments

10. Many respondents agreed with the proposed definition of 'exchangeable' and the factors required to be considered in assessing whether a currency is exchangeable. One preparer disagreed with the proposal, suggesting a lack of exchangeability be determined by 'the accounting association of a country as a whole'; otherwise different companies may reach different conclusions, affecting comparability.

11. Many respondents commented on aspects of the proposal related to:

(a) time frame (paragraphs 12–15);

(b) ability to obtain the other currency (paragraphs 16–18);

(c) markets or exchange mechanisms (paragraphs 19–23);

(d) purpose of obtaining the other currency (paragraphs 24–26);

(e) ability to obtain only limited amounts of the other currency (paragraphs 27–30); and

(f) other matters (paragraphs 31–33).

Time frame

12. The Exposure Draft proposed adding requirements in paragraph A5 to state:

> Paragraph 8 defines a spot exchange rate as the exchange rate for immediate delivery. However, an exchange transaction may not always complete instantaneously, because of legal or

regulatory requirements applying to exchange transactions, or for practical reasons such as statutory holidays. A normal administrative delay in obtaining the other currency does not preclude a currency from being exchangeable into that other currency. What constitutes a normal administrative delay depends on facts and circumstances.

13. Some respondents suggested providing guidance on applying normal administrative delay, such as by providing indicators or factors to consider. Some of these respondents also provided examples of situations to consider:

(a) one accounting firm said, when capital controls exist, a normal administrative delay may be very different from that in circumstances when such controls do not exist.

(b) one accountancy body said jurisdictional authorities may heavily oversubscribe the allocation of foreign currency, creating a backlog that increases administrative delays (perhaps up to 60 days) and the resulting situation may prevail for an extended period. That respondent asked how to apply 'normal' in this situation and appropriately assess a 'change in normalcy' in such circumstances.

(c) one accountancy body said, in some jurisdictions, the approval process for exchange transactions appears arbitrary, taking from 7 to 90 days. In those circumstances, entities may be unable to identify patterns that could indicate a normal administrative delay.

(d) one accountancy body suggested excluding regulatory 'cash flow management techniques' from being treated as administrative delays because these delays point more to a lack of exchangeability between two currencies.

14. Some respondents suggested providing clarity on specific points:

(a) one preparer group asked whether to use the spot exchange rate on the date of requesting foreign currency or the date of obtaining foreign currency;

(b) one standard-setter suggested explaining further how normal administrative delay fits with 'immediate delivery' within the definition of 'spot exchange rate' in IAS 21; and

(c) one accounting firm and one standard-setter asked for clarity that normal administrative delay does not refer to the time required to fix the spot exchange rate.

15. A few respondents commented on proposed Illustrative Example 1 that would accompany IAS 21. For example:

(a) the Malaysian Accounting Standards Board said:

> The IASB has included helpful examples to illustrate application of the principles. Nevertheless, we are concerned that without indicators or better explanation of how to apply the principles, the examples could be applied as bright lines, for example seven days in Example 1 (time frame) or FC50/FC1,000 or 5% in paragraph A11 (insignificant amount).

(b) Ernst & Young Global Limited said:

> …paragraph IE4 notes that 'Entity X considers seven days to be a normal administrative delay …'. This appears to establish quite a low threshold when it comes to concluding that a currency suffers from a lack of exchangeability.
>
> In our professional experience, a 'lack of exchangeability' should only be considered to exist when it has not been possible to convert a currency for a period well in excess of a normal administrative delay.

Ability to obtain the other currency

16. The Exposure Draft proposed adding requirements in paragraph A6 to state:

> In assessing whether a currency is exchangeable into another currency, an entity shall consider its ability to obtain the other currency, and not its intention or decision to do so. Subject to the other requirements in paragraphs A5–A11, a currency is exchangeable into another currency if an entity is able to obtain the other currency—either directly or indirectly—even if it

> intends or decides not to do so. For example, subject to the other requirements in paragraphs A5–A11, currency LC is exchangeable into currency PC if an entity is able to either exchange LC for PC, or exchange LC for another currency (FC) and then exchange FC for PC, regardless of whether the entity intends or decides to obtain PC.

17. A few respondents said the meaning of being able to obtain the other currency 'indirectly' is unclear, or suggested that transactions—beyond currency-to-currency transactions—can provide evidence of exchangeability. For example, PricewaterhouseCoopers International Limited (PwC) said:

> Paragraph A6 refers to an entity obtaining currency "either directly or indirectly". It is unclear what is envisioned by obtaining currency indirectly. We suggest clarifying that an indirect assessment could include obtaining currency through, for example, liquid financial instruments or commodities (e.g. gold).

18. One individual suggested using a 'more likely than not' threshold when assessing the ability to obtain the other currency and adding a rebuttable presumption that an entity has the ability to exchange a currency when it has a legal right and means to do so, unless there is evidence to the contrary.

Markets or exchange mechanisms

19. The Exposure Draft proposed adding requirements in paragraph A7 to state:

> In assessing whether a currency is exchangeable into another currency, an entity shall consider only markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations. Enforceability is a matter of law. Whether an exchange transaction in a market or exchange mechanism would create enforceable rights and obligations depends on facts and circumstances.

20. Some respondents agreed that, in assessing exchangeability, an entity consider only markets or exchange mechanisms that create enforceable rights and obligations. These respondents suggested clarifying that an entity not consider unofficial (or 'parallel' or

'black') markets in assessing exchangeability but, when exchangeability is lacking, the exchange rates from these markets can be used to estimate the spot exchange rate. For example:

(a) Grant Thornton International Ltd said:

> [It would be helpful] if the Board could clarify (a) when the existence of an unofficial/illegal currency exchange should be disregarded when the currency lacks exchangeability, and (b) whether the presence of an unofficial/illegal currency exchange market could ever be taken into account when estimating the spot exchange rate, given it potentially does reflect the actual economic conditions that exist at the date of preparing the financial statements…

(b) KPMG IFRG Limited (KPMG) said:

> We would also propose that the amendments clarify that exchange mechanisms need to create enforceable rights and obligations only as part of step I, i.e. for the purpose of assessing whether the currencies are considered to be exchangeable. Parallel or black markets (where no enforceable rights and obligations are created) might still be considered as part of the estimation of a rate in step II (i.e. estimating a rate after it is concluded that exchangeability is lacking) if they provide useful information.

21. A few respondents said it is unclear what is meant by 'create enforceable rights and obligations'. These respondents suggested either defining the phrase or referring to 'legal' or 'lawful' exchange mechanisms.

22. One accountancy body suggested clarifying the jurisdiction for which enforceability is assessed and whether the assessment is restricted only to official markets and exchange mechanisms. This respondent referred to a specific currency exchange transaction between two unrelated entities subject to different laws. This respondent also suggested considering the principles for 'enforceability' (of rights and obligations) in IFRS 15 *Revenue from Contracts with Customers* and IFRS 17 *Insurance Contracts.*

23. A few respondents suggested proposed Illustrative Example 2 include the reasons for the lack of enforceability of rights and obligations in the described jurisdiction.

Purpose of obtaining the other currency

24. The Exposure Draft proposed adding requirements in paragraphs A8–A10 to state:

> A8. Different rates might apply for different uses of a currency. For example, a jurisdiction facing pressure on its balance of payments might wish to deter capital remittances (such as dividend payments) to other jurisdictions but encourage imports of specific goods from those jurisdictions…
>
> A9. Accordingly, whether a currency is exchangeable into another currency could depend on the purpose for which the entity obtains the other currency. In assessing exchangeability, an entity shall assume the purpose of obtaining the other currency is to:
>
> (a) settle individual foreign currency transactions, assets or liabilities for foreign currency transactions reported in the entity's functional currency.
>
> (b) realise the entity's net assets for the use of a presentation currency other than the entity's functional currency.
>
> (c) realise the entity's net investment in a foreign operation for translating the results and financial position of that foreign operation.
>
> A10. An entity's net assets or net investment in a foreign operation might be realised by for example:
>
> (a) the distribution of a financial return to the entity's owners;
>
> (b) the receipt of a financial return from the entity's foreign operation; or
>
> (c) the entity's owners recovering their investment, such as through disposal of the investment.

25. A few respondents said it is unclear how to apply the requirements related to 'purpose', such as in situations in which there is no actual need to exchange one currency for another. These situations include, for example, translating on initial

recognition non-monetary assets that will be recovered through use rather than sale and balances always settled in local currency.

26. One preparer said proposed paragraphs A9–A10 imply each entity needs to determine the exchange rate for different purposes, which could lead to a variety of exchange rates being used, and asked for clarity as to which of those 'possible' rates should be used.

Ability to obtain only limited amounts of the other currency

27. The Exposure Draft proposed adding requirements in paragraph A11 to state:

> An entity may be able to obtain only limited amounts of the other currency. For example, an entity with a liability denominated in a foreign currency (FC1,000) may be able to obtain only FC50 to settle that liability. In such circumstances, a currency is not exchangeable into another currency when, for a purpose specified in paragraph A9, an entity is able to obtain no more than an insignificant amount of the other currency. An entity shall assess the significance of the amount of the other currency it is able to obtain for a specified purpose by comparing that amount with the total amount of the other currency required for that purpose.

28. Some respondents suggested providing guidance on how to apply 'no more than an insignificant amount'. For example, the Securities and Exchange Commission of Brazil said:

> …[W]e think that there is a lack of guidance regarding the concept of "more than an insignificant amount". What is the threshold? How can the Board ensure a homogeneous judgment regarding this issue across jurisdictions?

29. Some respondents suggested clarifying the application of this factor in proposed paragraph A2. Standard-setters and a preparer group from Latin America said:

> We partially agree with this proposal. The statement in paragraph A2 that "If an entity cannot obtain more than a non-significant amount of the other currency, one currency is not convertible into the other" needs to be clarified. It can lead to

> situations in which, even if there are exchange limits, it will not configure the lack of exchangeability, as long as they are not insignificant. Likewise, in paragraph A11, this convertibility limit appears again (only in insignificant cases).

30. Other comments include:

    (a) it is unclear whether, in applying this factor, balances should be aggregated by nature and risks.

    (b) the link between the purpose of obtaining the other currency in proposed paragraph A9 and the ability to obtain only limited amounts of the other currency in proposed paragraph A11 is unclear.

    (c) the proposed 'no more than insignificant' threshold in determining a lack of exchangeability is too low. It is narrower than the approach in IFRS 13 *Fair Value Measurement* when the volume or level of activity for an asset or liability has significantly decreased (referred to in paragraph BC14 of the Exposure Draft).

    (d) the requirement in proposed paragraph A11 might result in entities reaching different conclusions depending on the size of their operations and transactions involved.

    (e) how to apply the aggregate model is unclear. One respondent said paragraphs BC15–BC16 provide an example that could be included in the Standard for clarity.

    (f) questions remain as to whether the situation in Argentina qualifies as one in which exchangeability is lacking.

Other matters

31. Some respondents commented on the level at which exchangeability is assessed:

    (a) a few respondents suggested exchangeability be assessed at a jurisdiction level rather than an entity level. For example, Deloitte Touche Tohmatsu Limited (Deloitte) said:

    > We do not agree that exchangeability between two currencies should be assessed at the entity level.

> We believe that lack of exchangeability reflects a market wide economic situation. Therefore, we believe that it should be determined at the level of the economy and not at an entity level, as proposed in the ED. Similar to the principle in IAS 29 [*Financial Reporting in Hyperinflationary Economies*] that indicates that it is preferable that all entities that report in the currency of the same hyperinflationary economy apply this IAS 29 from the same date, we would suggest that the conclusion that there is a lack of exchangeability should reflect the general view of the state of the affected economy. We suggest that the Board should develop factors that entities would consider making this assessment.

(b) a group of standard-setters suggested changes to the proposal to assess exchangeability at a jurisdiction level for each reporting purpose (specified in proposed paragraph A9).

(c) a few respondents asked for clarity about whether the assessment is at an entity level versus a purpose level, and at a transaction level versus an aggregate level. One accounting firm suggested exchangeability be assessed for each transaction.

32. Some respondents commented on the proposed definition of 'exchangeable':

(a) some respondents suggested using or adding wording proposed as application guidance within that definition. For example, the Saudi Organization for Chartered and Professional Accountants said:

> Paragraph 8 specifies that a currency is exchangeable into another currency when an entity is able to exchange that currency for the other currency. This definition needs some refinement to reflect its objective, which in our view is to indicate the availability of the exchange when it is needed. Therefore, we suggest using the wording in paragraph A2 to define exchangeability…

(b) a few respondents said exchangeability is often only lacking in one direction and suggested amending the definition to clarify that a currency is exchangeable when an entity is able to 'buy and sell' the currency.

33. Some respondents suggested clarifying:

(a) how to assess exchangeability when there are multiple exchange rates;

(b) the frequency of assessing exchangeability;

(c) whether proxies and implied exchange rates can be used to assess exchangeability; and

(d) whether the absence of one of the factors considered in assessing exchangeability would indicate a lack of exchangeability.

Determining the spot exchange rate when exchangeability is lacking (Question 2)

Background

34. Question 2 in the Exposure Draft asked respondents whether they agree with the proposal to amend IAS 21 to specify how an entity determines the spot exchange rate when a currency is not exchangeable into another currency. Paragraphs BC17–BC20 of the Exposure Draft explain the IASB's rationale for this proposal. In particular, proposed paragraphs 19A–19B of the draft amendments to IAS 21 state:

> 19A. When exchangeability between two currencies is lacking—that is, when a currency is not exchangeable into another currency (as described in paragraphs A2–A11) at a measurement date—an entity shall estimate the spot exchange rate at that date. The estimated spot exchange rate shall meet the following conditions assessed at the measurement date:
>
> (a) a rate at which an entity would have been able to enter into an exchange transaction had the currency been exchangeable into the other currency;
>
> (b) a rate that would have applied to an orderly transaction between market participants; and
>
> (c) a rate that faithfully reflects the prevailing economic conditions.
>
> 19B. In estimating the spot exchange rate as required by paragraph 19A, an entity may use an observable exchange rate

> as the estimated spot exchange rate when that observable exchange rate meets the conditions in paragraph 19A and is either:
>
> (a) a spot exchange rate for a purpose other than that for which the entity assesses exchangeability; or
>
> (b) the first exchange rate at which an entity is able to obtain the other currency after exchangeability of the currency is restored (first subsequent exchange rate).

Respondents' comments

35. Although some disagreed, most respondents agreed with the proposal to require an entity to estimate the spot exchange rate when exchangeability between two currencies is lacking. Some respondents fully agreed with the proposed requirements on how to estimate the spot exchange rate; most asked for further clarification or suggested changes to the proposal.

36. Comments from respondents who disagreed with the proposal that an entity estimate the spot exchange rate when exchangeability is lacking include the following:

    (a) a few respondents said, when exchangeability is lacking, meeting the conditions in proposed paragraph 19A may be impracticable. They said a lack of exchangeability differs from a significant decrease in the volume or level of activity for an asset or liability dealt with in IFRS 13. IFRS 13 deals with low liquidity whereas a lack of exchangeability arises from no ability to exchange (a lack of liquidity). These respondents said prioritising observable data in an active market would provide greater reliability in estimates.

    (b) Deloitte said:

    > In most circumstances, lack of exchangeability arises in economies with high inflation for which reliable data is also lacking. We do not believe that it is possible to reliably estimate exchange rates in such circumstances. Indeed, the absence of reliable inputs on which to base an estimate results in an arbitrary estimate that cannot be audited with an appropriate level of confidence. Therefore, we have serious concerns about

> the meaningfulness and comparability of the financial information that would be produced using such an estimate.
>
> We believe that unless the lack of exchangeability is established, entities should be required to use the official exchange rate. It would be useful to provide guidance on which official exchange rate an entity should use when multiple exchange rates are available…
>
> If the lack of exchangeability is established, entities should be permitted to use either the official exchange rate or another exchange rate available to them…[such as] another official exchange rate (if there are multiple official exchange rates), the first subsequent exchange rate (if exchangeability is re-established) or the exchange rate available on a parallel market (including on a parallel market in which the exchange transaction would not create enforceable rights and obligations…).

(c) one preparer suggested the exchange rate be determined by the jurisdiction's accounting association.

37. Most respondents asked for further clarification or made suggestions related to:

(a) paragraph 19A conditions (paragraphs 38–41);

(b) estimating the spot exchange rate (paragraphs 42–45)[2];

(c) observable exchange rates in paragraph 19B (paragraphs 46–49); and

(d) other matters (paragraphs 50–52).

Paragraph 19A conditions

38. Some respondents commented on the conditions in proposed paragraph 19A (reproduced in paragraph 34 of this paper). One accounting firm questioned whether exchangeability would actually be lacking if the conditions were met. Some respondents suggested revising the proposal to specify that the conditions are objectives an entity aims to meet when estimating the spot exchange rate, and not

[2] This section summarises comments related to estimating the spot exchange rate that are not specifically addressing aspects of proposed paragraph 19A or proposed paragraph 19B.

requirements to be met. For example, the International Air Transport Association Industry Accounting Working Group (IAWG) said:

> IAWG believes that it would not be unusual that there would be no observable or estimated spot exchange rate that meets all three criteria. In such cases, no rate would be acceptable despite it being essential that an exchange rate be identified. We therefore recommend that the language in ED/IAS 21.19A be revised to state: "The estimated spot exchange rate is the rate that best meets the following conditions assessed at the measurement date:"
>
> IAWG also suggests that ED21.19A(c) be revised to reflect that the exchange rate reflect not only the economic conditions, but also the political conditions as frequently the lack of exchangeability is the result of non-economic actions.

39. Some respondents suggested providing examples or guidance on how an entity would reflect the following situations in determining the spot exchange rate:

    (a) when there is no observable exchange rate;

    (b) when the observable exchange rate does not meet the conditions in proposed paragraph 19A and how to consider the effects of such a rate;

    (c) when some of the factors in proposed paragraph A13[3] are not met or mixed; and

    (d) how to consider and apply 'an orderly transaction between market participants' in proposed paragraph 19A.

40. One accounting firm commented on proposed paragraph A13 and suggested:

    (a) adding—as a factor to consider—exchange rates established in unofficial currency exchange transactions. These rates can provide evidence in determining to what extent an observable exchange rate meets the conditions in proposed paragraph 19A.

[3] Proposed paragraph A13 sets out factors to consider when assessing whether an observable rate for a purpose other than that for which the entity assesses exchangeability meets the conditions in proposed paragraph 19A.

(b) deleting the reference to 'incentive' or 'penalty' because it is not possible to identify incentive or penalty components of observable exchange rates.

(c) encouraging a degree of caution in the example used in proposed paragraph A13(b)—proposed paragraph A13(b) refers to an entity's ability to obtain the other currency only for limited purposes, such as to import emergency supplies.

(d) removing 'more likely' in proposed paragraph A13(c) because, as written, the sentence runs contrary to IFRS 13.

41. Other comments include requests to:

(a) clarify whether the condition in proposed paragraph 19A(c) is specific to an entity or the jurisdiction's prevailing economic conditions;

(b) clarify how an observable exchange rate for another purpose could meet the conditions in proposed paragraph 19A—proposed Illustrative Example 4 illustrates this but one accountancy body said the example seems unrealistic;

(c) require a jurisdiction-level evaluation of whether an observable exchange rate meets the conditions in proposed paragraph 19A; and

(d) specify circumstances in which the conditions in proposed paragraph 19A might not work.

Estimating the spot exchange rate

42. As mentioned in paragraph 20 of this paper, some respondents suggested clarifying that parallel or black markets cannot be considered in assessing exchangeability but, when exchangeability is lacking, the exchange rates from these markets can be used to estimate the spot exchange rate. Some respondents provided information—based on their experience—about parallel market exchange rates in particular jurisdictions.

43. Some respondents suggested adding examples or guidance on estimating the spot exchange rate, to include:

(a) the use of an estimation technique and an unofficial exchange rate;

(b) which inputs to use in estimating the spot exchange rate; and

(c) how inflation or hyperinflation is reflected in estimating the spot exchange rate.

44. Some respondents suggested using particular references in estimating the spot exchange rate. For example:

(a) the Institute of Chartered Accountants of Zimbabwe said:

> Given challenges of observing parallel market rates we recommend the utilisation of purchase parity indices (e.g. Big Mac Index) or implied rates obtained from dual or multi-listed counters as a starting point to estimating an appropriate exchange rate. Unlike the parallel market rate, these rates are verifiable and also aptly reflect prevailing economic conditions.

(b) PwC said:

> We recommend also adding examples of how an entity might estimate a spot exchange rate in the absence of any observable rates. Such examples could include methods based on bonds traded on foreign markets, inflation indicators, and other legal mechanisms to obtain currency through commodities or financial instruments that are traded in both currencies.

45. Other comments include requests to require an entity to maximise the use of observable inputs and define 'free-floating rate' in proposed paragraph A13(c) to include rates in situations in which central banks intervene in currency exchange with no strong restrictions in place.

Observable exchange rates in paragraph 19B

46. Some respondents said the wording in proposed paragraph 19B (reproduced in paragraph 34 of this paper) is unclear, and provided suggestions to improve the wording. For example:

(a) the Autorité des Normes Comptables said:

> Paragraph BC19 of the ED includes the Board's observations in relation to paragraph 19B. However this paragraph does not, in our view, clearly explain why the Board decided to give a permission rather than to specify a requirement—ie an entity

would be required to first assess whether the exchange rates mentioned in paragraph 19B meet the estimation objective set out in paragraph 19A of the ED and if that assessment were to be inconclusive, the entity would then resort to an estimation technique.

We do not disagree with such a permission because it accommodates the wide range of facts and circumstances that entities may face and it may be a reasonable approach from a cost-benefit perspective. However, the lack of explanations about this permission has created confusion among some stakeholders as to how to understand the Board's proposals. Accordingly, we recommend the Board provide further explanations in this respect.

(b) KPMG said:

Paragraph 19B allows (but does not mandate) the use of an observable rate for a different purpose or the first available subsequent rate to be used as the estimated rate. It could be inappropriately interpreted that 19B (a) and (b) should be applied sequentially. Doing so would imply that another estimation technique may be used *only* if 19B (a) and (b) estimates are unavailable. The flowchart in A1 also supports the idea of a hierarchy, moving from a preferred approach to a less preferred approach in a sequential order, depending on the availability of each option.

We understand that the principle set out in paragraph 19A is that an estimated spot rate should be used when exchangeability between two currencies is lacking. We would welcome a rewording of paragraph 19B to make clear that the entity should use its judgement to form the best estimate of that spot rate. The techniques shown in 19B (a) and (b) are examples of how an entity could make that estimate, or may use the rates mentioned in 19B (a) and (b) as a starting point, but other methods may be equally as valid.

47. Some respondents commented on the proposal to permit, but not require, an entity to use an observable exchange rate as the estimated spot exchange rate. These respondents suggested:

    (a) requiring an entity to use observable exchange rates, including a rebuttable presumption to this effect or requiring the disclosure of reasons for not using an observable exchange rate. For example, the European Financial Reporting Advisory Group (EFRAG) said:

    > Therefore, EFRAG recommends to the IASB introducing a rebuttable presumption that the use of an observable exchange rate (as mentioned in paragraph A12 of the ED) should be preferred. Consequently, the use of an estimation technique or the first subsequent rate at which exchanges could be made would only be required under limited circumstances when it is necessary to better reflect the economic reality. In EFRAG's opinion, this presumption would increase comparability and reliability of resulting financial information.… Alternatively, EFRAG suggests that a disclosure could be introduced explaining the reasons of not using the available observable rates.

    (b) maximising the use of observable exchange rates, similar to the fair value hierarchy in IFRS 13.

    (c) providing a required sequencing of using observable exchange rates, with differing views as to whether the sequence should be:

        (i) (1) first subsequent exchange rate, (2) observable spot exchange rate for another purpose, (3) estimated spot exchange rate; or

        (ii) (1) observable spot exchange rate for another purpose, (2) first subsequent exchange rate, (3) estimated spot exchange rate.

48. A few respondents suggested providing examples on how to apply the requirements in proposed paragraph 19B.

49. Other comments include requests to:

    (a) expand the definition of 'observable' such as to incorporate both market observable rates and those quoted privately by governments;

(b) clarify whether implied rates or rates from indirect currency exchange mechanisms are observable exchange rates; and

(c) set the date on which financial statements are being approved for issuance as the latest date at which exchangeability is restored.

Other matters

50. A few respondents suggested clarifying whether an entity needs to estimate a spot exchange rate for the remaining foreign currency balances when the entity is able to obtain only a portion of the foreign currency balances. One of these respondents also suggested clarifying that foreign currency liabilities—that an entity intends to settle using existing foreign currency assets—are translated using the same rate as those related assets.

51. One preparer suggested that entities in hyperinflationary economies not restate their statement of comprehensive income because it creates distortion and affects comparability across periods.

52. Other comments include requests to:

(a) clarify that an exchange rate excludes transaction taxes applied to foreign currency transactions;

(b) clarify whether revised paragraph 26 of IAS 21 is applicable when exchangeability exists or does not exist;

(c) clarify the order of exchange rates to use when there are multiple exchange rates, even when there is no lack of exchangeability; and

(d) consider whether to amend paragraph 22(g) of IAS 10 *Events after the Reporting Period*, which treats foreign exchange rate changes after the end of a reporting period as a 'non-adjusting event'.

Disclosure (Question 3)

Background

53. Estimating a spot exchange rate when exchangeability between two currencies is lacking could materially affect an entity's financial statements. That estimation would also require the use of judgements and assumptions. In developing the Exposure

Draft, the IASB was informed that users of financial statements (investors) are interested not only in the effect on the financial statements of estimating the spot exchange rate, but in understanding an entity's exposure to a currency that lacks exchangeability. Investors said information about the nature and financial effects of a lack of exchangeability, the spot exchange rate used, the estimation process and the risks to which the entity is exposed would help their analyses. The proposed disclosure requirements were therefore designed to provide investors with such information.

54. Question 3 in the Exposure Draft asked respondents whether they agree with the proposal to amend IAS 21 to require an entity to disclose information that would enable investors to understand how a lack of exchangeability between two currencies affects, or is expected to affect, its financial performance, financial position and cash flows. Paragraphs BC21–BC23 of the Exposure Draft explain the IASB's rationale for this proposal.

Respondents' comments

55. Many respondents agreed with the proposed disclosure requirements for the reasons the IASB explained while some respondents expressed concerns about those proposed requirements. One preparer disagreed with the proposal and said the disclosure objective in proposed paragraph 57A is too broad and may not be operational or enforceable; this preparer suggested replacing the disclosure objective with a 'narrower specific' disclosure objective.

56. Some respondents suggested considering the interaction of the proposed disclosure requirements with those in other IFRS Accounting Standards such as IAS 1 *Presentation of Financial Statements*, IAS 10, IFRS 7 *Financial Instruments: Disclosures*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13[4]:

    (a) some respondents referred to disclosure of sensitivity analysis, suggesting:

        (i) disclosing an analysis of possible changes to the exchange rate for the next 12 months and their effect on the reported

[4] In paragraph BC22 of the Exposure Draft, the IASB noted its consideration of disclosure requirements in other accounting standards and, for example, that an entity might already provide some of the information required in the proposal when applying other standards.

statements of financial position and comprehensive income. One respondent suggested referencing this to disclosures about sources of estimation uncertainty required by IAS 1.

(ii) disclosing the potential effect on the financial statements of different exchange rates (such as official exchange rates, observable exchange rates, exchange rates from parallel markets and estimated spot exchange rates).

(iii) quantifying differences between the estimated spot exchange rate and any official exchange rates.

(b) a few respondents referred to IAS 10 and suggested requiring disclosure of material changes that occur after the reporting date that may affect the estimated spot exchange rate.

(c) one accounting firm suggested aligning the proposed disclosure requirements for foreign operations with those for material subsidiaries, joint ventures and associates in IFRS 12, while another accounting firm suggested linking the proposed disclosure of assets and liabilities affected by a lack of exchangeability to those on the fair value hierarchy in IFRS 13.

57. Some respondents suggested additional disclosures to provide information about:

(a) judgements made (for example, how an entity determines (i) what constitutes a normal administrative delay; or (ii) what is an ‘insignificant amount’ of the other currency);

(b) the legal framework that results in a lack of exchangeability;

(c) situations in which an entity is unable to access foreign currency on a non-temporary basis (locked-in capital);

(d) the existence of an observable exchange rate and the reason for not using it in estimating the spot exchange rate;

(e) changes in, and the amount of, the accumulated translation reserve;

(f) the financial effect and risks in the functional currency and presentation currency; and

(g) inter-company balances that are not eliminated due to the difference in exchange rates for settling inter-company balances and translating that foreign operation.

58. One individual suggested additional disclosures about the effect of using alternative exchange rates, even when there is no lack of exchangeability.

59. Other comments include:

(a) a suggestion to consider whether to extend the proposal to provide information about the hyperinflationary or high inflation environment in which an entity might operate;

(b) whether the proposal would apply if a lack of exchangeability no longer exists at the reporting date but existed during the reporting period;

(c) whether the proposal would apply to digital currency arrangements and a request for additional guidance on these types of arrangements; and

(d) that the Exposure Draft does not include proposed presentation requirements.

Transition (Question 4)

Background

60. Question 4 in the Exposure Draft asked respondents whether they agree with the proposal to amend IAS 21 to require an entity to apply the amendments from the date of initial application and permit earlier application. The IASB proposed no exemption from retrospective application for first-time adopters. Paragraphs BC24–BC27 of the Exposure Draft explain the IASB's rationale for the proposed transition requirements.

Respondents' comments

61. Most respondents agreed with the proposed transition requirements for the reasons the IASB explained.

62. A few respondents commented on aspects of the proposal. In particular:

(a) a few respondents asked that the transition requirements specifically refer to particular items, such as deferred tax balances, assets measured at recoverable amounts and non-monetary items measured at fair value when the valuation date does not coincide with the date of initial application.

(b) one individual said it is necessary to provide an exemption for first-time adopters because retrospective application would require hindsight and would be costly. This individual suggested permitting a first-time adopter to assess exchangeability at the date of transition (if possible without the use of hindsight), or otherwise apply the amendments prospectively.

(c) one accountancy body said applying the amendments should have no effect on the opening retained earnings because the exchange rate used is based on estimation and may not fully align with different exchange rates in the market. This accountancy body suggested prospective application of the amendments, with no effect on opening retained earnings.

Next steps

63. We plan to bring a paper to a future IASB meeting analysing the feedback and providing recommendations on the project direction.

Question for the IASB
Do IASB members have any comments or questions on the Exposure Draft feedback as summarised in this paper, and are there any topics on which IASB members would like more details at future meetings?