IFRS

STAFF PAPER

September 2018

IFRS Interpretations Committee meeting

Project	**IAS 21––Determination of the exchange rate when there is a long-term lack of exchangeability**
Paper topic	Agenda decision to finalise

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Introduction

1. At its June 2018 meeting, the IFRS Interpretations Committee (Committee) considered the determination of the exchange rate an entity uses to translate the results and financial position of a foreign operation into its presentation currency applying IAS 21 *The Effects of Changes in Exchange Rates*. The Committee considered this matter in the following circumstances:

   (a) the exchangeability of the foreign operation's functional currency with other currencies is administered by jurisdictional authorities. This exchange mechanism incorporates the use of an exchange rate set by the authorities (official exchange rate).

   (b) the foreign operation's functional currency is subject to a long-term lack of exchangeability with other currencies—ie the exchangeability is not temporarily lacking as described in paragraph 26 of IAS 21 and has not been restored after the end of the reporting period.

   (c) the lack of exchangeability with other currencies has resulted in the foreign operation being in effect unable to access foreign currencies using the exchange mechanism described in (a) above.

2. The Committee observed that those circumstances exist in Venezuela and discussed whether, in those circumstances, an entity is required to use an official exchange rate in applying IAS 21.

3. The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to assess whether, in the circumstances described above, it uses the official exchange rate to translate into its presentation currency the results and financial position of a foreign operation. Consequently, the Committee tentatively decided not to add this matter to its standard-setting agenda. In June 2018 the Committee published a tentative agenda decision (see Agenda Paper 1 of this meeting for a copy of June IFRIC® Update).

4. In addition, the Committee also decided to research possible narrow-scope standard-setting aimed at addressing the exchange rate a reporting entity uses when:

   (a) the reporting entity translates the results and financial position of a foreign operation into its presentation currency, and

   (b) the spot exchange rate (as defined in IAS 21) is not observable.

5. The purpose of this paper is to:

   (a) analyse the comments on the tentative agenda decision; and

   (b) ask the Committee if it agrees with our recommendation to finalise the agenda decision.

6. Some respondents also commented on the Committee's decision to research possible narrow-scope standard-setting. This paper also summarises comments on this matter.

7. There are two appendices to this paper:

   (a) Appendix A—proposed wording of the agenda decision; and

   (b) Appendix B—comment letters.

Comment letter analysis and staff analysis

8. We received nine comment letters on the tentative agenda decision, reproduced in Appendix B to this paper.

9. The ASBJ, Deloitte, EY, the MASB, Mazars and PwC agree with the Committee's decision not to add the matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision. Some of these respondents suggested some clarifications to the wording of the agenda decision.

10. KPMG and the ASCG do not agree with particular aspects of the tentative agenda decision. In addition, KPMG does not agree with the Committee's conclusion that IAS 21 provides an adequate basis for an entity to assess whether it uses the official exchange rate for translation purposes when the foreign operation's functional currency is subject to a long-term lack of exchangeability.

11. The ANC, the ASBJ, Deloitte and KPMG also commented on the Committee's decision to research possible narrow-scope standard setting on the matter described in paragraph 4 of this paper.

12. Respondents' comments, together with our analysis, are presented below.

Disagreement with the Committee's conclusion

Summary of feedback

Rationale for conclusion

13. KPMG disagrees with the Committee's rationale for its conclusion that IAS 21 provides an adequate basis for an entity to assess whether it uses the official exchange rate for translation purposes in the circumstances described in the agenda decision. KPMG says that when an entity considers the tentative agenda decision in assessing whether the official exchange rate meets the definition of a closing rate in IAS 21, it could conclude that:

    (a) the official exchange rate does not meet the definition of a closing rate (or the exchange rate at the dates of the transactions). KPMG says that in this situation, because the only rate an entity can access through a legal exchange rate mechanism is the official rate, there is no alternative rate that would appear to meet the description of a closing rate outlined in the tentative agenda decision.

(b) the official exchange rate is the closing rate because the entity would have access to the rate but for its inability in practice to actually obtain foreign currency through that mechanism.

Conflict with Committee's previous observation

14. KPMG says the Committee's tentative conclusion that 'IAS 21 provides an adequate basis for…' conflicts with the Committee's agenda decision published in November 2014 in which the Committee observed that '…a longer-term lack of exchangeability is not addressed by the guidance in IAS 21, and so it is not entirely clear how IAS 21 applies in such situations'.

Suggested amendment to address this matter

15. KPMG says it supports a view that an entity may, in the circumstances described in the agenda decision, use an appropriate estimated exchange rate. Accordingly, KPMG suggests that the Committee amend the agenda decision to state that, in the circumstances described in the agenda decision, it is not clear how an entity applies IAS 21 to determine the closing rate and, accordingly, entities may use an appropriate estimated rate. KPMG says this would provide immediate support for entities with operations in Venezuela.

Staff analysis

Rationale for conclusion

16. We agree that in some situations an entity might conclude that the official exchange rate meets the definition of a closing rate. We also agree that in other situations an entity might conclude that the official exchange rate does not meet the definition of a closing rate. We think this is not an accounting policy choice—rather, it depends on the entity's particular facts and circumstances. We think the wording in the agenda decision does not create ambiguity as to how an entity reads the requirements in IAS 21 in this respect—instead it outlines the requirements in IAS 21 and provides helpful observations on how an entity would read those requirements in the circumstances described in the agenda decision.

17. If an entity were to conclude that the official exchange rate does not meet the definition of the closing rate (or the exchange rate at the dates of the transactions), we

think the agenda decision would not prevent entities from using an estimated exchange rate in the limited circumstances described in the submission. We agree that IAS 21 does not address the exchange rate an entity uses in this situation. The wording in the agenda decision states that the closing rate is (emphasis added) 'the rate to which an entity *would* have access at the end of the reporting period through a legal exchange mechanism'—we think this would not prevent an entity, in the limited circumstances described in the submission, to estimate a rate that *would have* been observed had (i) the exchangeability been possible, and (ii) the exchange rate been set through a legal exchange mechanism to faithfully reflect prevailing economic conditions.

Conflict with Committee's previous observation

18. We think the June 2018 tentative agenda decision does not conflict with the Committee's previous observations in November 2014. Rather, we think it complements the November 2014 agenda decision by addressing a related, but somewhat different, matter. In November 2014, the Committee acknowledged that the requirements in IAS 21 were not clear on the exchange rate an entity uses when there is a longer-term lack of exchangeability. The June 2018 tentative agenda decision simply addresses how, applying the requirements in IAS 21, an entity assesses whether the official exchange rate meets the definition of a closing rate in specified circumstances. We agree with the Committee's conclusion that the principles and requirements in IAS 21 provide an adequate basis for an entity to make this particular assessment.

19. Similar to the November 2014 agenda decision, the June 2018 tentative agenda decision does not discuss further the rate an entity uses when the official exchange rate does not meet the definition of a spot exchange rate. At its meeting in June 2018, the Committee acknowledged that IAS 21 does not explicitly specify how to determine the closing rate in such circumstances and concluded it should undertake research on possible narrow-scope standard setting to address this matter. In this respect, the Committee's conclusions in November 2014 and June 2018 are aligned.

Suggested amendment to address this matter

20. KMPG suggests stating in the tentative agenda decision that an entity may use an appropriate estimated exchange rate in the specified circumstances. At its June 2018 meeting, the Committee considered whether the agenda decision should specify that an entity uses, or may use, an estimated exchange rate. However, the Committee concluded that while doing so might be helpful for entities, it would go beyond the requirements in IAS 21. This is because IAS 21 does not include explicit requirements dealing with such circumstances. Accordingly, the Committee concluded it should undertake research on possible narrow-scope standard setting to address this matter.

21. We agree with the Committee's conclusions at its June 2018 meeting and, consistent with those conclusions, we think the Committee should not amend the agenda decision to specify that an entity, in the circumstances described in the submission, uses, or can use, an estimated exchange rate.

Staff conclusion

22. In the light of our analysis in paragraphs 16-21 of this paper, we recommend no change to the tentative agenda decision in this respect.

Scope of the agenda decision

Narrowing the scope of the agenda decision to very rare circumstances

Respondents' feedback

23. PwC suggests clarifying in the agenda decision that the circumstances described in the fact pattern in which an official exchange rate does not meet the definition of a closing rate (or the exchange rate at the dates of the transactions) are very rare. EY suggests that the agenda decision state that the Committee's assessment has been made specifically for the facts and circumstances that currently exist in Venezuela, and that the assessment should not be applied by analogy to other jurisdictions.

Staff analysis and conclusion

24. We think the wording of the tentative agenda decision, in particular the specification of the circumstances to which the agenda decision is applicable, is sufficiently precise

to prevent its application in situations in which doing so would be inappropriate. We think, in many situations, the official exchange rate (as described in the agenda decision) meets the definition of a spot exchange rate and, consequently, the matter would arise in rare circumstances.

25. At its meeting in June 2018, the Committee decided to include an explicit reference to Venezuela, which, in our view, confirms that the matter is of particular relevance for Venezuelan operations. We do not agree with EY's suggestion that the agenda decision further specify that the Committee's assessment is limited to Venezuela and does not apply to other jurisdictions. We see no basis on which the Committee could, through an agenda decision, prevent entities in the same circumstances to those currently existing in Venezuela from reading the requirements in IAS 21 in a similar manner. We also think limiting the applicability of the agenda decision to Venezuela would decrease the usefulness of the agenda decision and could prompt further questions to the Committee each time similar circumstances arise in other jurisdictions.

26. Accordingly, we recommend no change to the tentative agenda decision in this respect.

Expanding the conclusion to the translation of monetary items

Respondent's feedback

27. PwC says it would be helpful to explain that a similar situation might exist in relation to the exchange rate used for translating monetary items to an entity's functional currency.

Staff analysis and conclusion

28. We agree with PwC's observation that a similar matter could arise when reporting foreign currency transactions in an entity's functional currency. Paragraph 23(a) of IAS 21 states that when an entity reports foreign currency transactions in the functional currency at the end of each reporting period, the entity translates foreign currency monetary items using the closing rate. Accordingly, an entity would also need to assess whether it uses the official exchange rate to translate monetary items into its functional currency.

29. We think a similar matter could also arise when an entity initially recognises a foreign currency transaction. This is because paragraph 21 of IAS 21 requires an entity to use the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

30. Although we think an entity's assessment of whether the official exchange rate meets the definition of a spot or closing rate would be similar to that outlined in the agenda decision, we think the agenda decision should not specifically mention these matters. This is because these matters are beyond the scope of what the Committee considered at its meeting in June 2018—ie a lack of exchangeability when an entity translates the results and financial position of a foreign operation into its presentation currency; and thus, they were not included in the tentative agenda decision.

31. Accordingly, we recommend no change to the tentative agenda decision in this respect. We will nonetheless consider these matters when researching possible narrow-scope standard-setting as outlined in paragraph 4 of this paper.

Other comments

Responding to the question

Respondent's feedback

32. The ASCG says the agenda decision does not answer the question of whether, in the circumstances described in the agenda decision, an entity is required to use the official exchange rate. The ASCG says the agenda decision does clarify whether an entity uses the official exchange rate if restrictions apply.

Staff analysis and conclusion

33. At its May and June 2018 meetings, Committee members observed that, based on their experience, differences in reporting practices identified (see paragraph 50 of Agenda Paper 2 of the June 2018 meeting) reflect differences in the facts and circumstances for different Venezuelan foreign operations. We agree with the Committee's conclusion at the June 2018 meeting that assessing whether the official exchange rate meets the definition of the closing rate (or the exchange rate at the dates of the transactions) is an entity-specific assessment that depends on the particular facts and circumstances. Accordingly, the Committee is not in a position to conclude

on whether the official exchange rate meets the definition of a closing rate in all situations.

34. Accordingly, we recommend no change to the tentative agenda decision in this respect.

Observability of the official rate

Respondent's feedback

35. The ASCG says the official exchange rates in Venezuela are observable. The ASCG says the real matter is not whether the rate is observable, but rather whether an entity uses those exchange rates in applying IAS 21 in situations in which those rates are applicable only to particular transactions or when other restrictions apply.

Staff analysis and conclusion

36. We agree with the ASCG that the official exchange rate is observable. However, the agenda decision would apply to circumstances in which the lack of exchangeability results in a foreign operation being unable to access foreign currencies using the legal exchange rate mechanism available. In such circumstances, an entity may assess that it does not have access to the official exchange rate. Accordingly, in this situation, the official exchange rate, although observable, might not meet the definition of a spot exchange rate for the entity. The tentative agenda decision simply outlines how an entity makes this assessment.

37. We also agree that a question arises as to whether an entity uses the official exchanges rate in applying IAS 21 when the official exchange rate is applicable only to particular transactions, or when other restrictions apply. We will consider these matters when researching possible narrow-scope standard-setting as outlined in paragraph 4 of this paper.

38. Accordingly, we recommend no change to the tentative agenda decision in this respect.

Consistency in defining the closing rate

Respondent's feedback

39. KPMG says the tentative agenda decision states that the closing rate is 'the rate to which an entity would have access at the end of the reporting period through a legal exchange mechanism'. However, the tentative agenda decision then goes on to state that 'an entity assesses whether the official exchange rate meets the definition of the closing rate—ie is it the rate to which an entity would have access at the end of the reporting period'. In that sentence, it uses a different definition of the closing rate because it omits the qualification of 'through a legal exchange mechanism'.

Staff analysis and conclusion

40. We recommend no change to the tentative agenda decision in this respect. This is because the 'official exchange rate' is described in paragraph (a) of the circumstances discussed in the tentative agenda decision—that description explicitly states that the rate is administered by jurisdictional authorities (ie a legal exchange mechanism exists). Accordingly, we think it is unnecessary to duplicate the reference to the legal exchange mechanism when specifying how an entity assesses whether the official exchange rate meets the definition of the closing rate.

Other wording suggestions

Respondent's feedback

41. PwC suggests:

    (a) that paragraph (a) of the description of the circumstances not state that 'the exchangeability is not temporarily lacking as described in paragraph 26 of IAS 21 and has not been restored after the end of the reporting period', but rather specify that paragraph 26 of IAS 21 is not applicable. Through further discussion, we understand the concern is that the proposed wording of paragraph (a) could be read to imply that the description of a temporary lack of exchangeability in paragraph 26 of IAS 21 does not incorporate the absence of restoration of that exchangeability. PwC thinks the description in paragraph 26 of IAS 21 already incorporates this.

(b) removing the phrase 'in effect' in paragraph (c) of the description of the circumstances. In PwC's view, this creates ambiguity about the circumstances in which the matter arises.

Staff analysis and conclusion

42. We agree with PwC's concern described in paragraph 41(a) of this paper. We think the word 'and' in paragraph (b) of the description of the circumstances could be confusing in this respect. We recommend the Committee clarify this by amending the sentence to state (new text is underlined and deleted text is struck through):

> '…the exchangeability is not temporarily lacking as described in paragraph 26 of IAS 21; ~~and~~ it has not been restored after the end of the reporting period'.

43. In our view, the Committee should not replace the sentence with a statement that paragraph 26 of IAS 21 is not applicable. This is because:

(a) paragraph 26 of IAS 21[1] includes requirements not only for when exchangeability is temporarily lacking, but also for situations in which several exchange rates are available.

(b) the requirements in paragraph 26 of IAS 21 apply when an entity reports foreign currency transactions in the functional currency, and not when an entity uses a presentation currency other than the functional currency (ie the matter discussed in the tentative agenda decision).

44. We also agree with PwC's concern described in paragraph 41(b) of this paper. The words 'in effect' were included in the tentative agenda decision to:

(a) clarify that the assessment of the circumstances described in paragraph (c) requires judgement depending on the particular facts and circumstances of each entity; and

[1] Paragraph 26 of IAS 21 states: 'When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made'.

(b) to prevent a conclusion that an entity has access to foreign currencies in situations in which it might have been able to access only negligible amounts of foreign currency. Without a reference to 'in effect', a literal reading of the sentence might imply that the circumstances described in the agenda decision would not apply to those entities.

45. Nonetheless, the use of the words 'in effect' could lead some entities to inappropriately apply the conclusions of the tentative agenda decision in other circumstances. We also think the risk of a literal reading of the sentence without the words 'in effect' is mitigated by the Committee's observation that the circumstances described in the situation exist in Venezuela. Accordingly, on balance we recommend that the Committee remove the words 'in effect'.

Research for possible narrow-scope standard-setting

Respondents' feedback

46. The ANC, the ASBJ, Deloitte and KPMG commented on the Committee's decision to research possible narrow-scope standard setting to address the exchange rate an entity uses when the spot exchange rate is not observable.

47. The ASBJ suggests that the Board (i) amend IAS 21 to set out requirements specifying the exchange rate an entity uses when there is a long-term lack of exchangeability; (ii) define what a longer-term lack of exchangeability is; and (iii) require specific disclosures.

48. KPMG suggests that the Committee develop an Interpretation to clarify (i) which exchange rate an entity uses when there is a long term lack of exchangeability, (ii) the circumstances in which there is a long term lack of exchangeability, and (iii) how an entity determines an estimated exchange rate.

49. Deloitte recommends that any standard-setting address currency restrictions in a holistic manner, including the circumstances in which the exchangeability of a currency is restricted (but still occurring) and those in which a currency is not exchangeable at all.

50. The ANC questions whether the research should be limited to the requirements in IAS 21 or should also consider how the matter affects other IFRS Standards.

Staff analysis

51. We will consider the respondents' feedback when researching possible narrow-scope standard-setting as described in paragraph 4 of this paper.

Staff recommendation

52. Based on our analysis, we recommend finalising the tentative agenda decision as published in IFRIC Update in June 2018, subject to the modifications noted in paragraphs 42 and 45 of this paper. Appendix A to this paper sets out the proposed wording of the final agenda decision.

Question for the Committee
Does the Committee agree with the staff recommendation to finalise the agenda decision set out in Appendix A to this paper?

Appendix A—Proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21 *The Effects of Changes in Exchange Rates*)

The Committee considered the determination of the exchange rate an entity uses to translate the results and financial position of a foreign operation into its presentation currency applying IAS 21. The Committee considered this matter in the following circumstances:

(a) the exchangeability of the foreign operation's functional currency with other currencies is administered by jurisdictional authorities. This exchange mechanism incorporates the use of an exchange rate set by the authorities (official exchange rate).

(b) the foreign operation's functional currency is subject to a long-term lack of exchangeability with other currencies—ie the exchangeability is not temporarily lacking as described in paragraph 26 of IAS 21; it ~~and~~ has not been restored after the end of the reporting period.

(c) the lack of exchangeability with other currencies has resulted in the foreign operation being ~~in effect~~ unable to access foreign currencies using the exchange mechanism described in (a) above.

The Committee observed that those circumstances currently exist in Venezuela.

The Committee discussed whether, in those circumstances, an entity is required to use an official exchange rate in applying IAS 21.

The Committee observed that an entity translates the results and financial position of a foreign operation into its presentation currency applying the requirements in paragraphs 39 and 42 of IAS 21. Those paragraphs require an entity to translate:

(a) the assets and liabilities of the foreign operation at the closing rate; and

(b) income and expenses of the foreign operation at the exchange rates at the dates of the transactions if the functional currency of the foreign operation is not the currency of a hyperinflationary economy, or otherwise at the closing rate.

The closing rate and the rates at the dates of the transactions

Paragraph 8 of IAS 21 defines (a) the 'closing rate' as the spot exchange rate at the end of the reporting period; and (b) the 'spot exchange rate' as the exchange rate for immediate delivery. In the light of those definitions, the Committee concluded that the closing rate is the rate to which an entity would have access at the end of the reporting period through a legal exchange mechanism.

Accordingly, the Committee observed that in the circumstances described above an entity assesses whether the official exchange rate meets the definition of the closing rate—ie is it the rate to which the entity would have access at the end of the reporting period? Similarly, if the foreign operation's functional currency is not the currency of a hyperinflationary economy, the entity also assesses whether the official exchange rate represents the exchange rates at the dates of the transactions in applying paragraph 39(b) of IAS 21.

Continuous assessment of facts and circumstances

In the circumstances described above, economic conditions are in general constantly evolving. Therefore, the Committee highlighted the importance of reassessing at each reporting date whether the official exchange rate meets the definition of the closing rate and, if applicable, the exchange rates at the dates of the transactions.

Disclosure requirements

An entity is required to provide information that is relevant to an understanding of an entity's financial statements (paragraph 112 of IAS 1 *Presentation of Financial Statements*). The Committee highlighted the importance of disclosing relevant information in the circumstances described above. In particular, the Committee observed that the following disclosure requirements may be relevant to an understanding of an entity's financial statements:

(a) significant accounting policies, and judgements made in applying those policies that have the most significant effect on the amounts recognised in the financial statements (paragraphs 117–124 of IAS 1);

(b) sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, which may include sensitivity analysis (paragraphs 125–133 of IAS 1); and

(c) the nature and extent of significant restrictions on an entity's ability to access or use assets and settle liabilities of the group, or in relation to its joint ventures or associates (paragraphs 10, 13, 20 and 22 of IFRS 12 *Disclosures of Interests in Other Entities*).

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to assess whether, in the circumstances described above, it uses the official exchange rate to translate into its presentation currency the results and financial position of a foreign operation. Consequently, the Committee ~~[~~decided~~]~~ not to add this matter to its standard-setting agenda.

Appendix B—Comment letters

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Ms Sue Lloyd
International Accounting Standards Board
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Our ref CS/288

21 August 2018

Dear Ms Lloyd

Tentative agenda decision: *Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21)*

We appreciate the opportunity to comment on the above tentative agenda decision (TAD) of the IFRS Interpretations Committee (the Committee). We have consulted with, and this letter represents the views of, the KPMG network.

The TAD acknowledges the practical inability to obtain foreign currency through official exchange mechanisms which entities with operations in Venezuela face. The TAD also appears to suggest that, in these circumstances, those entities may use an appropriate estimated exchange rate (rather than an official exchange rate) to translate amounts when applying IAS 21. We support such a conclusion but believe that the TAD should state this explicitly.

Furthermore, we do not agree with the Committee's tentative conclusion that IAS 21 provides an adequate basis for an entity to assess whether it uses the official exchange rate for translation purposes when the foreign operation's functional currency is subject to a long-term lack of exchangeability with other currencies (circumstance (b) in the TAD). This tentative conclusion conflicts with the Committee's previous observation in November 2014[1], with which we agree, that "a longer-term lack of exchangeability is not addressed by the guidance in IAS 21, and so it is not entirely clear how IAS 21 applies in such situations." In our view, the new reasoning presented in the TAD is not robust and thus does not solve this problem:

— The TAD asserts that the closing rate "is the rate to which an entity would have access at the end of the reporting period through a legal exchange rate mechanism." But the

[1] IFRIC Update – November 2014: IAS 21 *The Effects of Changes in Foreign Exchange Rates – Foreign exchange restrictions and hyperinflation*

only rates which an entity could access through a legal exchange rate mechanism are official exchange rates (circumstance (a) in the TAD).

— The TAD then says “an entity assesses whether the official exchange rate meets the definition of the closing rate – i.e. is it the rate to which the entity would have access at the end of the reporting period?” This question uses a different description of closing rate since it omits the qualification of “through a legal exchange rate mechanism.”

  – Although it is not made clear, we assume that the Committee’s intention is that an entity may conclude that the answer to this question is no, based on the practical inability to access foreign currency legally (circumstances (b) and (c) in the TAD). But in this case, the entity is still faced with the dilemma that there is no alternative rate that can be accessed in practice through a legal exchange rate mechanism – i.e. on this basis, there appears to be no rate that meets the Committee’s suggested elaboration of the definition of closing rate.

  – On the other hand, it appears that an entity might answer yes to the question on the basis that the closing rate is the rate to which it “would have access... through a legal exchange mechanism” – i.e. it would have access but for its inability in practice to actually obtain foreign currency through that mechanism.

The spot and closing rates are defined in IAS 21 as the rate of exchange for immediate delivery on the relevant measurement date and this is supported by guidance indicating how to choose between several available rates based on the rate that could have been used at that date. The fundamental problem is that these principles presume that currency is exchangeable at the measurement date and the standard does not address how these concepts are operationalised if there is a continuing lack of exchangeability. We do not believe that this gap can be addressed by an agenda decision. Therefore, we recommend that the Committee:

— Amend the TAD to state that it is not clear in the circumstances described how IAS 21 should be applied to determine the closing rate and accordingly some entities may use an appropriate estimated rate. This will provide immediate support for entities with Venezuelan operations who are trying to report what they consider to be the most useful information they can.

— Reconsider developing an interpretation to provide a more robust long-term solution to this lack of clarity in IAS 21. Such an interpretation might also include guidance on determining whether there is a lack of exchangeability, particularly in the context of currencies subject to legal exchange controls, and on determining an estimated exchange rate.

Please contact Chris Spall on +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited
cc Reinhard Dotzlaw, KPMG IFRG Limited

pwc

Ms Sue Lloyd
Chair, IFRS Interpretations Committee
30 Cannon Street
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14 August 2018

Dear Sue

Tentative agenda decision — IAS 21 *The Effects of Changes in Exchange Rates:* Determination of the exchange rate when there is a long-term lack of exchangeability

We are commenting on the above tentative agenda decision, published in the June 2018 edition of IFRIC Update, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the rejection. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the Committee's tentative decision and with the Committee's reasons for reaching that decision. We have some suggestions that we believe would improve the clarity of the agenda decision.

It is important that the agenda decision is clear that it is only in the very rare circumstances described in the fact pattern that an official exchange rate might not meet the definition of a closing rate. We believe that the agenda decision could be clarified by:

- Replacing the statement that 'the exchangeability is not temporarily lacking as described in paragraph 26 of IAS 21 and has not been restored after the end of the reporting period' with a simple statement that paragraph 26 of IAS 21 is not applicable.

- Deleting the words 'in effect' from paragraph (c), because they introduce ambiguity about the circumstances being described.

We note that the agenda decision addresses the determination of the exchange rate for consolidation purposes. It would be helpful for the agenda decision to explain that a similar situation might exist in connection with the exchange rate used for translating monetary items.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney, PwC Head of Reporting and Chief Accountant (+ 7841 569635), or Sandra Thompson (+ 44 7921 106900).

Yours sincerely,

PricewaterhouseCoopers

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Chairman

Paris, the 6th of August 2018

Mrs Lloyd
IFRS Interpretations Committee
30 Cannon Street
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June 2018 - IFRS-IC tentative agenda decisions

Dear Mrs Lloyd,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the IFRS-IC tentative decisions published in June 2018 IFRIC Update regarding IAS 21 – *Determination of the exchange rate when there is a long-term lack of exchangeability*. This letter sets out one of the most critical comments raised by interested stakeholders involved in ANC's due process.

In response to the IFRIC's tentative decision relating to IAS 21 determination of the exchange rate in Venezuela where there is a long-term lack of exchangeability in addition to hyperinflation, ANC appreciates the pragmatic approach which has been taken and welcomes the decision to add this issue to its Research work program. However, ANC wonders whether the research project should be limited to a narrow scope amendment of IAS 21 or whether it should not consider potential impacts on other Standards.

Please do not hesitate to contact us should you want to discuss any aspect of our letter.

Yours sincerely,

Patrick de Cambourg

MINISTÈRE DE L'ÉCONOMIE

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Berlin, 31 July 2018

Dear Sue,

IFRS IC's decisions in its June 2018 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the June 2018 IFRIC Update.

We agree with the final agenda decision as regards IAS 7 and the two tentative agenda decisions in respect of IAS 23.

However, we do not fully concur with the tentative agenda decision on the IAS 21 issue, for the following reasons:

- Whilst agreeing with the IFRS IC's observations as regards the current requirements on how to assess the exchange rate to be used, we note that the IFRS IC did not answer the main question, being "*whether, in those circumstances, an entity is required to use an official exchange rate in applying IAS 21*". Hence, the IFRS IC's conclusion does not add clarity as to whether official rates should be used if restrictions apply.
- Further, the IFRS IC notes that IAS 21 does "*not … include explicit requirements on the exchange rate [to be used] when the (official) spot exchange rate is not observable*", which in Venezuela's case seems a misplaced statement given that these rates are clearly *observable*. The "real issue" as we understand it is whether or not these rates are also

applicable in situations where either official rates are limited to transactions that meet certain criteria that are not met for the specific transaction under consideration or other restrictions apply (e.g. limited liquidity). We also note that the issue is deeply intertwined with hyperinflation, at least in Venezuela's case.

- This said, we are unclear what the research suggested in the IFRIC Update would focus on. We have doubts that this issue could be resolved through narrow-scope standard-setting – as it evidences a more general lack of appropriate requirements on currency translation in situations where there is hyperinflation.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow
President

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20 August 2018

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
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E14 4HD

Dear Ms Lloyd

Tentative agenda decision - IAS 21 *The Effects of Changes in Foreign Exchange Rates*: Determination of the exchange rate when there is a long-term lack of exchangeability

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the June IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the determination of the exchange rate used to translate the results and financial position of a foreign operation when there is a long-term lack of exchangeability between the functional currency of the foreign operation and the reporting entity's presentation currency.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision and with its decision to explore standard-setting in this area, although we believe that to address the facts that (as stated in the tentative agenda decision) economic conditions are constantly evolving and that different conditions exist in different jurisdictions this research should not focus solely on the current situation in Venezuela. Restrictions on currency exchange (of varying degrees of severity) are a feature of many economies and IAS 21 provides little guidance on how to address such circumstances, either in retranslating a foreign operation or retranslating individual monetary items denominated in a currency subject to such restrictions (for example, when the law allows for the use of an exchange mechanism to settle some balances, but not others).

As such, we recommend that any standard-setting activity address currency restrictions in a holistic manner, addressing both retranslation of foreign operations and individual monetary items and exchange restrictions ranging from restricted, but functioning, exchange mechanisms to a severe and ongoing lack of any legal means of exchange (as currently observed in Venezuela).

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

21 August 2018

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
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London E14 4HD
United Kingdom

Dear Ms. Lloyd

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions published in IFRIC Update June 2018:

(1) Tentative Agenda Decision - Borrowing Costs on Land (IAS 23 *Borrowing Costs*).

(2) Tentative Agenda Decision - Expenditures on Qualifying Asset (IAS 23 *Borrowing Costs*).

(3) Tentative Agenda Decision - Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21 *The Effects of Changes in Foreign Exchange Rates*).

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decision for not adding these items onto its agenda.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

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International Financial Reporting Standards Interpretations Committee
30 Cannon Street
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24 August 2018

Dear IFRS Interpretations Committee members,

Invitation to comment – Tentative Agenda Decision (TAD): IAS 21 *The Effects of Changes in Foreign Exchange Rates* — Determination of the exchange rate when there is a long-term lack of exchangeability

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee (the Committee) published in the June 2018 *IFRIC Update*.

The Committee discussed the question "whether, in those circumstances [that currently exist in Venezuela], an entity is required to use an official exchange rate in applying IAS 21."

We support the Committee's assessment in relation to the particular facts and circumstances in Venezuela. However, we ask the Committee to state clearly that the assessment has been made specifically for the facts and circumstances that currently exist in Venezuela and that the assessment should not be analogised to for other jurisdictions.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

Accounting Standards Board of Japan (ASBJ)
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9 August 2018

Ms. Sue Lloyd

IFRS Interpretations Committee
International Accounting Standards Board
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United Kingdom

Comments on the Tentative Agenda Decision Relating to IAS 21 *The Effects of Changes in Foreign Exchange Rates* —Determination of the exchange rate when there is a long-term lack of exchangeability

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcome the opportunity to comment on the IFRS Interpretation Committee (the "Committee")'s tentative agenda decision relating to IAS 21 *The Effects of Changes in Foreign Exchange Rates* — Determination of the exchange rate when there is a long-term lack of exchangeability, proposed in the June 2018 IFRIC Update.

2. We believe both short-term measures and mid- to long-term measures are needed to appropriately address this issue.

Short-term measures

3. In the tentative agenda decision, the Committee discusses the exchange rate an entity should use to translate the results and financial position of a foreign operation into its presentation currency in the following circumstances:

   (a) the exchangeability of a currency with other currencies is administered by jurisdictional authorities and they provide legal exchange mechanisms including setting an official exchange rate and mandating to use it.

(b) the foreign operations are subject to a long-term lack of exchangeability with other currencies through the legal exchange mechanisms.

(c) the long-term lack of exchangeability with other currencies has resulted in the foreign operation effectively being unable to access foreign currencies.

4. We agree that the special circumstances described above exist in Venezuela, and we observe that, in some cases, the official exchange rates are used to translate the results and financial position of foreign operations in Venezuela into their presentation currencies. We are aware that some question whether it is appropriate to use the official exchange rate as the closing rate, defined in paragraph 8 of IAS 21.

5. In this context, considering the current special circumstances in Venezuela, we support the Committee's tentative agenda decision that proposes an entity assess whether it is appropriate to use the official exchange rate as the closing rate for the special circumstances in Venezuela.

6. On the other hand, we note that, although paragraph 26 of IAS 21 provides guidance on the exchange rate to be used when exchangeability between currencies is lacking temporarily, there is no requirement in IAS 21 for the exchange rate to be used when there is a long-term lack of exchangeability.

7. Therefore, we believe an entity should disclose the following items in full and explain them to the users of financial statements when determining the exchange rate for the entity's Venezuelan operations:

   - ✓ the exchange rate used;
   - ✓ why the official exchange rate is appropriate as the closing rate or the exchange rate at the date of the transaction (or why it is inappropriate); and
   - ✓ the method the entity uses to estimate the exchange rate when the entity concludes that the official exchange rate is inappropriate as the closing rate.

Mid- to long-term measures

8. As mentioned above, our understanding is that the tentative agenda decision relates to the special circumstances observed in Venezuela. However, in order to fundamentally resolve this issue, we think the IASB should have provided guidance

in IAS 21 relating to the exchange rate to be used when there is a long-term lack of exchangeability.

9. Accordingly, in the mid- to long-term, we believe the IASB should amend IAS 21 as a narrow scope amendment to prescribe how to determine the closing rate or the exchange rate at the date of the transaction, when an entity is subject to a long-term lack of exchangeability. Furthermore, we believe the IASB will need to clarify when a long-term lack of exchangeability exists.

10. We would like to emphasise that an entity should disclose the following items in full and explain them to the users of financial statements, unless certain conditions, such as the exchange rate used is obvious, are met:

    - ✓ the exchange rate used;
    - ✓ why the entity considers that rate is appropriate (or inappropriate) as the closing rate or the exchange rate at the date of the transaction; and
    - ✓ (if the exchange rate is estimated) how the exchange rate is estimated.

11. We hope our comments are helpful for the Committee’s and the IASB’s consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Yukio Ono
Chairman
Accounting Standards Board of Japan

MAZARS

Mrs Sue Lloyd

IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Paris, August 28, 2018

Tentative Agenda Decisions – IFRIC Update June 2018

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the June 2018 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin | **Edouard Fossat**

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Appendix 1

Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21 The Effects of Changes in Exchange Rates)—Agenda Paper 2

We agree with the tentative IFRS IC decision not to add this matter to its standard-setting agenda and to research possible narrow-scope standard-setting aimed at addressing this matter.