Staff paper

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IASB® meeting

Date	**December 2022**
Project	**Lack of Exchangeability (Proposed amendments to IAS 21)**
Topic	**Cover paper**
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Introduction and purpose of this meeting

1. In April 2021 the International Accounting Standards Board (IASB) published the Exposure Draft *Lack of Exchangeability*, which proposed amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates.* The project originated from a submission to the IFRS Interpretations Committee (Committee)—the Committee's discussions identified the need to add requirements to IAS 21 on how an entity determines whether a currency is exchangeable into another currency and the accounting requirements to apply when it is not.

2. Our analysis and recommendations in the papers for this meeting take into account feedback from meetings including:

   (a) January 2022 IASB discussion of a summary of the feedback (January 2022 Agenda Paper 12A) on the Exposure Draft. IASB members did not make any decisions at that meeting; they provided initial thoughts for the staff to consider in further analysing the feedback.

   (b) May 2022 Emerging Economies Group (EEG) discussion (May 2022 Report of the EEG Meeting) of the staff's preliminary suggestions on possible ways forward on two proposals in the Exposure Draft—(1) assessing exchangeability between two currencies and (2) determining the spot exchange rate when exchangeability is lacking.

   (c) September 2022 Committee discussion of the staff's revised preliminary views (September 2022 Agenda Paper 5) on a possible way forward for determining the spot exchange rate when exchangeability is lacking.

3. The purpose of this meeting is to provide the IASB with our analysis and recommendations on how to address matters raised in the feedback on the Exposure Draft; and ask the IASB whether it agrees with our recommendations.

Papers for this meeting

4. There are three papers for this meeting:

   (a) Agenda Paper 12A—Assessing exchangeability between two currencies;

   (b) Agenda Paper 12B—Determining the spot exchange rate when exchangeability is lacking; and

   (c) Agenda Paper 12C—Disclosure and transition.

Structure of this paper

5. This paper includes:

   (a) summary of staff recommendations; and

   (b) overview of the Exposure Draft.

Summary of staff recommendations

6. We recommend that the IASB proceed with its proposals in the Exposure Draft with the following changes:

   (a) *for factors to consider when assessing exchangeability*—

      (i) clarify that an entity does not consider 'unofficial markets' in assessing exchangeability but, when exchangeability is lacking, it can use exchange rates from these markets to estimate the spot exchange rate;

      (ii) develop an example of the 'aggregate method' either as application guidance or an illustrative example; and

      (iii) clarify that all factors are to be considered holistically when assessing exchangeability, and the absence of one factor would indicate a lack of exchangeability.

   (b) *for determining the spot exchange rate*—amend proposed paragraph 19A to state that an entity's objective in estimating the spot exchange rate is to reflect at the measurement date the rate at which an orderly exchange transaction would take place between market participants under prevailing economic conditions.

Overview of the Exposure Draft

7. 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.

8. 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.

9. 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).

10. Agenda Papers 12A–12C contain more details about feedback received on the proposals, staff analysis and recommendations.