Staff paper

Agenda reference: 29

IASB® meeting

Date	**December 2023**
Project	**Addendum to the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard***
Topic	**Lack of Exchangeability and Supplier Finance Arrangements**
Contacts	Rafal Markowski (rmarkowski@ifrs.org) Michelle Fisher (mfisher@ifrs.org)

Introduction

1. The International Accounting Standards Board (IASB) published the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (Exposure Draft) in September 2022.

2. At its September 2023 meeting the IASB discussed the project plan for redeliberating the proposals in the Exposure Draft. At that meeting the IASB confirmed that based on the feedback received during the second comprehensive review, the scope of the review should be as set out in the Exposure Draft, which was to consider alignment for full IFRS requirements that are effective on or before 1 January 2020. Nevertheless, the staff undertook to bring a paper to the October 2023 IASB meeting detailing all amendments to full IFRS Accounting Standards with an effective date after 1 January 2020 that were outside the scope of the second comprehensive review. The staff asked the IASB to assess whether any of these amendments should be added to the scope of the comprehensive review.

3. At its October 2023 meeting the IASB tentatively decided to amend the scope of the second comprehensive review and include the amendments to full IFRS Accounting Standards for supplier finance arrangements and lack of exchangeability. Therefore,

the IASB tentatively decided to expose for public comment a proposal to align the *IFRS for SMEs* Accounting Standard (the Standard) with:

(a) Supplier Finance Arrangements, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*; and

(b) Lack of Exchangeability, which amended IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

4. The proposed amendments to Section 7 *Statement of Cash Flows* and Section 30 *Foreign Currency Translation* of the Standard will be exposed for public comment as an addendum to the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (addendum exposure draft). The IASB aims to publish the addendum exposure draft in H1 2024 and include final amendments to Section 7 and Section 30 in the third edition of the Standard (expected to be published in the fourth quarter of 2024).

5. In this paper, the term 'SMEs' refers to small and medium-sized entities that are eligible to apply the Standard.

Purpose of this paper

6. This paper:

(a) asks the IASB to decide how to propose amendments to the Standard:

(i) to align Section 7 of the Standard with *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7); and

(ii) to align Section 30 of the Standard with *Lack of Exchangeability* (Amendments to IAS 21);

(b) asks the IASB whether it is satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the addendum exposure draft;

(c) recommends 120 days as the comment period for the addendum exposure draft; and

(d) asks if any IASB member intends to dissent from the proposals in the addendum exposure draft.

Structure of this paper

7. This paper includes:

   (a) staff recommendations (paragraphs 8–10);

   (b) Supplier Finance Arrangements (paragraphs 11–20);

   (c) Lack of Exchangeability (paragraphs 21–30);

   (d) due process steps and permission for balloting (paragraphs 31–37);

   (e) staff recommendations and questions to the IASB (paragraphs 38–40);

   (f) Appendix A—due process steps;

   (g) Appendix B—staff recommended proposed amendments to Section 7 of the Standard; and

   (h) Appendix C—staff recommended proposed amendments to Section 30 of the Standard.

Staff recommendations

8. Subject to drafting comments and editorial corrections, the staff recommend the IASB propose:

   (a) amendments to the Standard:

      (i) to align Section 7 of the Standard with *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7) as set out in Appendix B to this agenda paper; and

(ii) to align Section 30 of the Standard with *Lack of Exchangeability* (Amendments to IAS 21) as set out in Appendix C to this agenda paper;

(b) the amended and revised sections have the same effective date as the effective date of the third edition of the Standard;

(c) no transition reliefs for amendments to Section 7 of the Standard; and

(d) developing the same transition reliefs for amendments to Section 30 of the Standard as for amendments to IAS 21.

9. The staff recommend a 120-day comment period for the addendum exposure draft.

10. The staff recommend the IASB consider illustrative examples (accompanying IAS 21) when it updates the educational modules that support the second edition of the Standard or provide similar comprehensive educational material on the third edition.

Supplier Finance Arrangements

Overview of amendments to IAS 7 and IFRS 7

11. In May 2023 the IASB issued *Supplier Finance Arrangements* with the aim of improving the information an entity provides about its supplier finance arrangements. The IASB developed new requirements to provide users of financial statements with information to enable them:

(a) to assess how supplier finance arrangements affect an entity’s liabilities and cash flows; and

(b) to understand the effect of supplier finance arrangements on an entity’s exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

12. The additional requirements complement presentation and disclosure requirements already in full IFRS Accounting Standards as set out in the IFRS Interpretations

Committee December 2020 Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring*.

13. The amendments to IAS 7 and IFRS 7 are effective for annual reporting periods beginning on or after 1 January 2024. In applying the amendments, an entity is not required to disclose:

    (a) comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those amendments.

    (b) the information otherwise required by paragraph 44H(b)(ii)–(iii) of IAS 7 as at the beginning of the annual reporting period in which the entity first applies those amendments.

Staff analysis

14. At its October 2023 meeting the IASB discussed the relevance of *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7) to SMEs, considering the feedback from the SME Implementation Group (SMEIG) members on whether the IASB should include any of the recent and forthcoming amendments to full IFRS Accounting Standards in the scope of the second comprehensive review.

15. As noted in paragraphs 21–22 of Agenda Paper 30E for the October 2023 IASB meeting, the staff think the main requirements in IAS 1 *Presentation of Financial Statements* and IAS 7 referred to in the Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* are also requirements in the Standard (or are proposed to be introduced by the reconciliation of changes in liabilities arising from financing activities in paragraph 7.19A of the Exposure Draft). Therefore, we think this Agenda Decision also explains the current application of the Standard to supplier finance arrangements, with the exception of the disclosure requirements in IFRS 7 that are not in the Standard. Consequently, SMEs are required to provide some information about financial liabilities and cash flows related to supplier finance arrangements.

16. In paragraph 24 of Agenda Paper 30E for the October 2023 IASB meeting, the staff concluded that the amendments to application guidance on IFRS 7 (and Guidance on implementing IFRS 7) relate to financial instrument risk disclosure requirements that are not in the Standard and so are not relevant to SMEs.

17. The staff assessed paragraphs 44F–44H of IAS 7 against the principles for reducing disclosures (see paragraph BC157 of the Basis for Conclusions on the Standard) in Appendix B to Agenda Paper 30E for the October 2023 IASB meeting. We have reconsidered some aspects of our analysis based on IASB members' comments at the October 2023 meeting and how to reduce the risk of re-exposure of the addendum exposure draft that would delay the publication of the third edition of the Standard.

18. We continue to agree with our analysis and recommendations in paragraph B3 of Agenda Paper 30E for the October 2023 IASB meeting, but we have suggested some changes to our recommendations in October 2023 to align Section 7 of the Standard more closely with paragraphs 44F–44H of IAS 7. Specifically, we recommend the IASB propose requiring SMEs to disclose the same information as required in:

    (a) paragraph 44H(a) of IAS 7. We expect that information to be available to SMEs without incurring additional costs.

    (b) paragraph 44H(b)(ii) of IAS 7. SMEs usually have more time to prepare and file financial statements[1], so they will capture events after the reporting period over a longer period. For many SMEs, by the time their financial statements are issued, most of the financial liabilities that are part of a supplier finance arrangement will have been settled. We expect the information required by paragraph 44H(b)(ii) to be useful to users of SMEs' financial statements because it provides information about cash flows and obligations (paragraph BC157(a) of the Basis for Conclusions on the Standard). So, we think the IASB should expose for comments the proposal to require the same information from SMEs and redeliberate whether simplifications to the

[1] The *IFRS for SMEs* Accounting Standard does not require entities to prepare interim financial statements.

proposal are needed for SMEs based on the feedback. Otherwise, the IASB might need to re-expose the addendum exposure draft if, without the requirements equivalent to those in paragraph 44H(b)(ii) of IAS 7, feedback on the proposals in the addendum exposure draft indicates they are insufficient to satisfy users' information needs.

19. Our recommended proposed amendments to Section 7 of the Standard are included in Appendix B to this paper. In drafting our recommendations, we considered how to reduce the risk of re-exposure of the addendum exposure draft and have therefore proposed including relatively detailed disclosure requirements in Section 7 of the Standard in order to get feedback on these requirements. We recommend asking in the addendum exposure draft whether the proposals would provide useful information, proportional to the cost and effort involved for SMEs.

20. The IASB aims to finalise the amendments to Section 7 of the Standard and include them in the third edition of the Standard (expected in the fourth quarter of 2024 with effective date minimum two years from the date the Standard is issued). Therefore, we recommend the IASB propose the effective date of the amended Section 30 of the Standard be the same as the date of initial application of the third edition of the Standard. However, we do not recommend any specific transition reliefs because unlike entities applying full IFRS Accounting Standards, in our view, SMEs will have sufficient time to design internal processes and collect information for comparative period when the amendments to Section 7 of the Standard become effective.

Lack of exchangeability

Overview of amendments to IAS 21

21. In August 2023 the IASB issued *Lack of Exchangeability*, which amended IAS 21 to improve the usefulness of information provided to users of financial statements. The amendments require entities to apply a consistent approach to determining whether a

currency is exchangeable into another currency and the spot exchange rate to use when it is not.

22. The IASB developed specific transition requirements for entities already applying full IFRS Accounting Standards because it concluded that the expected benefits of requiring entities to apply the amendments retrospectively would not outweigh the costs. In particular:

(a) in many cases, retrospective application would likely require the use of hindsight and, even if possible without hindsight, would be costly.

(b) a currency not being exchangeable is accompanied by economic events that make trend information less useful for investors than in other situations. In such situations, users are interested in understanding an entity's exposure to that currency at the reporting date.

Staff analysis

23. The IASB assessed the relevance of *Lack of Exchangeability* to SMEs at its October 2023 meeting, considering the feedback from SMEIG members on whether the IASB should include any of the recent and forthcoming amendments to full IFRS Accounting Standards in the scope of the second comprehensive review. This section analyses how to simplify the amendments to IAS 21 (including the application guidance) for SMEs.

24. In analysing possible simplifications, we sought to achieve a balance between users' information needs and SMEs' capacity in applying any new requirements. Specifically, the staff considered:

(a) the need to maintain the structure of Section 30 of the Standard consistent with other sections and to keep the overall length of Section 30 proportional to the rest of the Standard.

(b) how to simplify the drafting, keeping the sentences short, using simplified wording and sentence structures, and avoiding unnecessary repetitions.

(c) whether some of the application guidance included in Appendix A to IAS 21 (which is an integral part of IAS 21) could be included in Section 30 of the Standard rather than an appendix to the section. To determine when guidance should be in the Standard, we have considered the factors discussed in paragraphs 4–8 of Agenda Paper 30 *Cover paper* for this meeting.

(d) which disclosure requirements might be onerous for SMEs or unnecessary to users of SMEs' financial statements considering the principles for reducing disclosures set out in paragraph BC157 of the Basis for Conclusions on the Standard. We note that the Standard generally does not include the disclosure objectives from full IFRS Accounting Standards. In addition, the Standard does not require detailed disclosure about an SME's exposure to specific risks. We think the IASB should not propose requiring an SME to provide information about the risks to which the SME is exposed because of the currency not being exchangeable (paragraph 57A(d) of IAS 21). However, in the staff view, the other specific disclosure requirements included in IAS 21 (see paragraphs 57A(a)–(c) and A19–A20) would provide users of SMEs' financial statements with useful information.

25. In addition, we do not expect translation of the addendum exposure draft (or final amendments resulting from it) into other languages to take substantial time and effort because we propose to make application guidance on Section 30 of the Standard more concise than the application guidance on IAS 21. In addition, if the IASB agrees with our recommendations, by the time the proposed amendments to Section 30 are effective (the date of initial application of the third edition of the Standard), we expect the amendments to IAS 21 will have been translated into many languages.

26. Our recommended proposed amendments to Section 30 of the Standard are included in Appendix C to this agenda paper. They are substantially the same as *Lack of Exchangeability* (Amendments to IAS 21) but, for the reasons explained in paragraph 24(d) of this paper, we recommend that the IASB should not propose requiring an SME to disclose risks to which the SME is exposed if currency is not exchangeable.

27. In drafting our recommendations, we considered how to reduce the risk of re-exposure of the addendum exposure draft and have therefore proposed relatively detailed amendments to Section 30 of the Standard in order to get feedback on these requirements. We recommend asking in the addendum exposure draft whether the proposals would provide useful information, proportional to the cost and effort involved for SMEs.

28. To maintain the structure of Section 30 of the Standard, we also recommend the IASB proposes:

    (a) including the definition of 'exchangeable' (as defined in paragraphs 8–8B of amended IAS 21) in the Glossary of terms (Appendix B to the Standard); and

    (b) amending the definition of 'severe hyperinflation' to align with the amended paragraph D27 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

29. The IASB aims to finalise the amendments to Section 30 of the Standard and include them in the third edition of the Standard. Therefore, we recommend the IASB propose the effective date of the amended Section 30 to be the same as the date of initial application of the third edition of the Standard. We also recommend the IASB propose the same transition reliefs as those for entities applying amendments to IAS 21 to ensure that first-time application of lack of exchangeability requirements is no more onerous to apply by SMEs than by entities applying full IFRS Accounting Standards.

30. We note that *Lack of Exchangeability* (Amendments to IAS 21) includes examples illustrating aspects of IAS 21. These examples accompany but are not part of IAS 21. In our view, it is unnecessary to include the examples in the addendum exposure draft. Instead, we think the IASB should consider the examples when it updates the educational modules that support the second edition of the Standard or provides similar comprehensive educational material on the third edition.

Due process

Comment period

31. Paragraph 6.7 of the *Due Process Handbook* states that the IASB normally allows a minimum period of 120 days for comment on an exposure draft. However, if the matter is narrow in scope and urgent, the IASB may consider a comment period of no less than 30 days. This is subject to obtaining approval from the Due Process Oversight Committee (DPOC).

32. In our view, the proposed amendments to Section 7 and Section 30 of the Standard are narrow in scope. However, they are not urgent to justify a comment period shorter than 120 days.

33. Similarly, a comment period longer than 120 days might not be appropriate. This is because to minimise disruption of a stable platform for SMEs, the IASB aims to finalise the proposals in the addendum exposure draft at the same time as it issues the third edition of the Standard. The third edition of the Standard is expected to be published in the fourth quarter of 2024. The staff believe a 120-day comment period will allow sufficient time for stakeholders to review the proposals and provide feedback.

34. Consequently, we recommend the IASB publishes the addendum exposure draft with a 120-day comment period.

Intention to dissent

35. In accordance with paragraph 6.23 of *Due Process Handbook*, we are asking whether any IASB member intends to dissent from the amendments.

Confirmation of the due process steps

36. In our view, the IASB has undertaken all the due process activities identified as being required in the *Due Process Handbook* and, thus, is able to publish the addendum exposure draft. Appendix A to this agenda paper summarises the due process steps taken in developing the proposals—the applicable due process steps to date for issuing the amendments have been completed.

37. We request permission to start the balloting process if the IASB is satisfied that:

    (a) it has been provided with sufficient analysis; and

    (b) it has complied with the applicable due process steps.

Staff recommendations

38. Subject to drafting comments and editorial corrections, the staff recommend the IASB propose:

    (a) amendments to the Standard:

        (i) to align Section 7 of the Standard with *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7) as set out in Appendix B to this agenda paper; and

        (ii) to align Section 30 of the Standard with *Lack of Exchangeability* (Amendments to IAS 21) as set out in Appendix C to this agenda paper;

    (b) the amended and revised sections have the same effective date as the effective date of the third edition of the Standard;

    (c) no transition reliefs for amendments to Section 7 of the Standard; and

    (d) developing the same transition reliefs for amendments to Section 30 of the Standard as for the amendments to IAS 21.

39. The staff recommend a 120-day comment period for the proposals in the addendum exposure draft.

40. The staff recommend the IASB consider illustrative examples (accompanying IAS 21) when it updates the educational modules that support the second edition of the Standard or provide similar comprehensive educational material on the third edition.

Questions for the IASB

Proposed amendments

1. Does the IASB agree with the staff recommendation:
   (a) to propose amendments to Section 7 of the *IFRS for SMEs* Accounting Standard as set out in Appendix B to this paper (subject to drafting comments and editorial corrections)?
   (b) to propose amendments to Section 30 of the *IFRS for SMEs* Accounting Standard as set out in Appendix C to this paper (subject to drafting comments and editorial corrections)?
   (c) to set the same effective date for the proposals in the addendum exposure draft as for the third edition of the *IFRS for SMEs* Accounting Standard?
   (d) not to provide transition reliefs for amendments to Section 7 of the Standard?
   (e) to provide similar transition reliefs for amendments to Section 30 of the Standard as for amendments to IAS 21?
   (f) not to include illustrative examples accompanying Section 30 in the addendum exposure draft?
   (g) to specifically seek feedback on the proportionality of the proposals to SMEs?

Due process

2. Does the IASB agree with the staff recommendation to provide a 120-day comment period for the proposals in the addendum exposure draft?
3. Is the IASB satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the addendum exposure draft?
4. Does any IASB member intend to dissent from the proposals in the addendum exposure draft?

Appendix A—due process steps

A1. The following table summarises the required due process steps taken in developing the proposed amendments. The table does not list all the optional steps.

Step	Actions
IASB meetings are held in public, with papers available for observers. All decisions are made in public sessions	• The IASB discussed this matter in public at its October 2023 meeting and is discussing the matter in public at this meeting. • SMEIG consulted on whether to include any recent amendments to full IFRS Accounting Standards in the scope of the review (feedback reported in October 2023) and also on the proposed amendments to include in the addendum exposure draft (feedback reported at this meeting).
Consultation with the Trustees and the Advisory Council	• The Trustees and Advisory Council will be updated on the project as part of their discussions of the IASB's technical activities.
Analysis of likely effects of the forthcoming IFRS Accounting Standard or major amendment, for example, initial costs or ongoing associated costs	• The proposed amendments to Section 7 of the Standard would provide information (both quantitative and qualitative) that helps users of financial statements determine the effects of supplier finance arrangements on the entity's liabilities and cash flows. • We expect the benefits of the proposed amendments for users of SMEs' financial statements to outweigh the costs for preparers of providing the additional information proposed. • The proposed amendments to Section 30 of the Standard would supplement but not change the underlying principles or requirements in Section 30. • The main effect is expected to be more consistent application of the requirements in Section 30 when a currency lacks exchangeability. • Because both amendments are narrow in scope, we see no need to have a separate effects analysis.
Finalisation	
Due process steps reviewed by the IASB	• This paper asks the IASB to review the due process steps for the project.
The Exposure Draft has an appropriate comment period	• To be discussed by the IASB at this meeting. We recommend a comment period of 120 days.

Drafting	
Drafting quality assurance steps are adequate	• The translations, editorial and taxonomy teams will review drafts during the balloting process.
Publication	
Exposure Draft published	• The addendum exposure draft will be made available on the project website when published.
Press release to announce publication of the Exposure Draft	• A press release will be published on our website with the addendum exposure draft.

Appendix B—staff recommended proposed amendments to Section 7 of the Standard

B1. This Appendix includes our recommended proposed amendments to Section 7 of the *IFRS for SMEs* Accounting Standard.

Section 7
Statement of Cash Flows

Paragraphs 7.19B–7.19D (including their related heading) are added. For ease of reading, new text is not underlined.

Supplier finance arrangements

7.19B Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

7.20C An entity shall disclose for its supplier finance arrangements:

(a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions.

(b) as at the beginning of, and end of the reporting period:

(i) the carrying amounts, and associated line items presented in the entity's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement.

(ii) the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment for the finance providers.

(iii) the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of the supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line item of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges).

(c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents (see paragraph 7.18).

Appendix C—staff recommended proposed amendments to Section 30 of the Standard

C1. This Appendix includes our recommended proposed amendments to:

(a) Section 30 of the *IFRS for SMEs* Accounting Standard (pages 18–23);

(b) Appendix A of the Standard (pages 24–25); and

(c) Appendix B of the Standard (page 26).

Section 30
Foreign Currency Translation

Paragraph 30.5A (including its related heading) and paragraph 30.28 are added. For ease of reading, new text is not underlined.

Estimating the spot exchange rate when a currency is not exchangeable (paragraphs 30A.11–30A.17)

30.5A An entity shall estimate the spot exchange rate at a measurement date when a currency is not **exchangeable** into another currency (as described in the Glossary and paragraphs 30A.2–30A.9) at that date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

…

Disclosures

…

30.28 When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency (see paragraph 30.5A), the entity shall disclose information about:

(a) the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;

(b) a description of affected transactions;

(c) the carrying amount of affected assets and liabilities;

(d) the spot exchange rate(s) used and whether those rates are observable exchange rates;

(i) without adjustment (see paragraphs 30A.11–30A.15); or

(ii) with adjustment (see paragraph 30A.16); and

(e) the estimation process, including qualitative and quantitative information about the inputs and assumptions used.

30.29 When a foreign operation's functional currency is not exchangeable into an entity's presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation's functional currency, the entity shall disclose:

(a) the name of the foreign operation; whether the foreign operation is a subsidiary, joint operation, joint venture, associate or branch; and its principal place of business;

(b) summarised financial information about the foreign operation; and

(c) the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.

Appendix A to Section 30 is added. For ease of reading, new text is not underlined.

Appendix A to Section 30
Application guidance

This application guidance is an integral part of Section 30.

Exchangeability

30A.1 The purpose of this guidance is to help entities assess whether a currency is **exchangeable** as defined in the Glossary (see paragraphs 30A.2–30A.9) and estimate the spot exchange rate when a currency is not exchangeable (see paragraphs 30A.10–30A.16).

Step I: Assessing whether a currency is exchangeable

30A.2 An entity might determine that a currency is not exchangeable into another currency, even though that other currency might be exchangeable in the other direction. For example, an entity might determine that currency PC is not exchangeable into currency LC, even though currency LC is exchangeable into currency PC.

Time frame

30A.3 A spot exchange rate is the exchange rate for immediate delivery. However, an exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public 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.

Ability to obtain the other currency

30A.4 In assessing whether a currency is exchangeable into another currency, an entity shall consider its ability to obtain the other currency (either directly or indirectly), rather than its intention or decision to do so. For example, subject to the other requirements in paragraphs 30A.2–30A.9, regardless of whether the entity intends or decides to obtain currency PC, currency LC is exchangeable into currency PC if an entity is able either to exchange LC for PC, or exchange LC for another currency (FC) and then exchange FC for PC.

Markets or exchange mechanisms

30A.5 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.

Purpose of obtaining the other currency

30A.6 Different exchange rates might be available for different uses of a currency. For example, the relevant authorities of a jurisdiction might set a preferential exchange rate for imports of specific goods and a 'penalty' exchange rate for dividend payments to other jurisdictions, thus resulting in different exchange rates applying to different exchange transactions.

30A.7 Accordingly, whether a currency is exchangeable into another currency could depend on the purpose for which the entity obtains (or hypothetically might need to obtain) the other currency. In assessing exchangeability, the entity shall assume its purpose in obtaining the other currency is:

(a) to realise or settle individual foreign currency transactions, assets or liabilities when an entity reports foreign currency transactions in its functional currency (see paragraphs 30.6–30.16).

(b) to realise or settle its net assets or net liabilities when an entity uses a presentation currency other than its functional currency (see paragraphs 30.17–30.21). The entity's net assets might be realised by, for example, the payment of dividend to its shareholders or disposal of the investment in the entity by its shareholders.

(c) to realise or settle its net investment in the foreign operation when an entity translates the results and financial position of a foreign operation into the presentation currency (see paragraphs 30.22–30.23). The entity's net investment in a foreign operation might be realised by, for example, receipt of dividend from the foreign operation or disposal of the investment in the foreign operation.

30A.8 An entity shall assess whether a currency is exchangeable into another currency separately for each purpose specified in paragraph 30A.7.

Ability to obtain only limited amounts of the other currency

30A.9 A currency is not exchangeable into another currency if, for a purpose specified in paragraph 30A.7, an entity is able to obtain no more than an insignificant amount of the other currency. For example, an entity with a functional currency of LC has liabilities denominated in currency FC. The entity assesses whether the total amount of FC it can obtain for the purpose of settling those liabilities is no more than an insignificant amount compared with the aggregated amount (the sum) of its liability balances denominated in FC.

Step II: Estimating the spot exchange rate when a currency is not exchangeable (paragraph 30.5A)

30A.10 This Standard does not specify how an entity estimates the spot exchange rate to meet the objective in paragraph 30.5A. If an exchange rate meets the objective in paragraph 30.5A, an entity may use that rate as the estimated spot exchange rate. An entity can use:

(a) an observable exchange rate without adjustment (see paragraphs 30A.11–30A.15); or

(b) an observable exchange rate with adjustment (see paragraph 30A.16).

Using an observable exchange rate without adjustment

30A.11 Examples of an unadjusted observable exchange rate include:

(a) a spot exchange rate for a purpose other than that for which an entity assesses exchangeability (see paragraphs 30A.12–30A.13); and

(b) the first exchange rate at which an entity is able to obtain the other currency for the specified purpose after exchangeability of the currency is restored (first subsequent exchange rate) (see paragraphs 30A.14–30A.15).

Using an observable exchange rate for another purpose

30A.12 A currency that is not exchangeable into another currency for one purpose might be exchangeable into that currency for another purpose. For example, an entity might be able to obtain a currency to import specific goods but not to pay dividends. In such situations, the entity might conclude that an observable exchange rate for another purpose meets the objective in paragraph 30.5A.

30A.13 An observable exchange rate for another purpose might not reflect the prevailing economic conditions when, for example:

(a) it includes an ‘incentive’ or ‘penalty’ set to encourage, or deter, entities from obtaining the other currency for particular purposes;

(b) an entity is able to obtain the other currency only for limited purposes (such as to import emergency supplies);

(c) it is set through regular interventions by the relevant authorities; or

(d) it is unchanged over time rather than being updated on a daily basis (or even more frequently).

Using the first subsequent exchange rate

30A.14 A currency that is not exchangeable into another currency at the measurement date for a specified purpose might subsequently become exchangeable into that currency for that purpose. In such situations, an entity might conclude that the first subsequent exchange rate meets the objective in paragraph 30.5A.

30A.15 The first subsequent exchange rate might not reflect the prevailing economic conditions when, for example:

(a) the date at which exchangeability is restored is long after the measurement date; or

(b) an economy is subject to high inflation, including hyperinflation, and prices change quickly, perhaps several times a day.

Using an observable exchange rate with adjustment

30A.16 An entity may use any observable exchange rate—including rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations—and adjust that rate, as necessary, to meet the objective in paragraph 30.5A.

Appendix A
Effective date and transition

This appendix is an integral part of the Standard.

Paragraph A37A is added. For ease of reading this paragraph has not been underlined.

Effective date

…

Transition

…

Foreign currency translation

…

A37A In applying paragraph 30.5A, an entity shall not restate comparative information. Instead:

(a) when the entity reports foreign currency transactions in its functional currency, and, at the date of initial application, concludes that its functional currency is not **exchangeable** into the foreign currency or, if applicable, the foreign currency is not exchangeable into its functional currency, the entity shall at the date of initial application:

(i) translate affected foreign currency monetary items, and non-monetary items measured at fair value in a foreign currency, using the estimated spot exchange rate at that date; and

(ii) recognise any effect of initially applying the amendments as an adjustment to the opening balance of retained earnings.

(b) when the entity uses a presentation currency other than its functional currency, or translates the results and financial position of a **foreign operation**, and, at the date of initial application, concludes that its functional currency (or the foreign operation's functional currency) is not exchangeable into its presentation currency or, if applicable, its presentation currency is not exchangeable into its functional currency (or the foreign operation's functional currency), the entity shall at the date of initial application:

(i) translate affected assets and liabilities using the estimated spot exchange rate at that date;

(ii) translate affected equity items using the estimated spot exchange rate at that date if the entity's functional currency is hyperinflationary; and

(iii) recognise any effect of initially applying the amendments as an adjustment to the cumulative amount of translation differences—accumulated in a separate component of equity.

Appendix B
Glossary of terms

This appendix is an integral part of the Standard.

The Glossary of terms is amended. New text is underlined and deleted text is struck through.

…

exchangeable A currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.

An entity assesses whether a currency is exchangeable into another currency:

(a) at a measurement date; and

(b) for a specified purpose.

If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.

…

severe hyperinflation The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

(a) a reliable general price index is not available to all entities with transactions and balances in the currency; and

(b) ~~exchangeability between~~ the currency is not exchangeable into ~~and~~ a relatively stable foreign currency ~~does not exist~~. Exchangeability is assessed in accordance with Section 30.

…