IFRS® Foundation

# Lack of exchangeability (Amendments to IAS 21)

Emerging Economies Group Meeting

Agenda Paper 5

**30 November-1 December 2020**

# Presenters



| | | | |
|---|---|---|---|
| **Project** | **Lack of Exchangeability (Amendments to IAS 21)** | | |
| **Paper topic** | Overview of the forthcoming proposals | | |
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# Purpose of this paper



- Update EEG members on the proposed amendments on IAS 21 *The Effect of Changes in Foreign Exchange Rates—Lack of exchangeability*.
- Introduction to the forthcoming Exposure Draft.
- Obtain EEG members’ views on the Board’s proposals.

# Lack of Exchangeability (IAS 21)



## Lack of Exchangeability

The exchange rate an entity uses when a currency's exchangeability is lacking

**Narrow-scope amendments to IAS 21 would:**

1. Identify the circumstances in which exchangeability is lacking
2. Require estimation of spot exchange rate
3. Provide disclosures

**Transition**

Prospectively with no restatement of comparatives

**Next steps**

Publish Exposure Draft in Q1 2021

# Lack of Exchangeability (IAS 21)



## 1. Identify the circumstances in which exchangeability is lacking

Exchangeability is lacking when, for a particular purpose, the entity is able to obtain **no more than an insignificant amount** of foreign currency

| | | | |
|---|---|---|---|
| An entity considers | Timeframe to obtain the foreign currency | Ability to obtain the foreign currency, not intention | Markets or exchange mechanisms that create enforceable rights and obligations |

| | | | | |
|---|---|---|---|---|
| Purpose | Reporting foreign currency transactions | Settle individual transactions, assets or liabilities | Translation to a different presentation currency | Realise net assets |

# Lack of Exchangeability (IAS 21)



## 2. Require estimation of spot exchange rate

### Objective of the estimation process

Foreign exchange rate that would have been:

✓ accessible at reporting date

✓ based on market transactions

✓ faithfully reflects economic conditions

### Other requirements

An entity applies the estimated exchange rate to:

- entire **transaction** or **balance** (*when reporting foreign currency transactions*)
- **financial statements as a whole** (*when using presentation currency*)

An entity can use an **observable rate** if that rate **meets the objective** of the estimation process and is either:

- a rate available for another purpose;
- or the first rate available at a date after the reporting date

# Lack of Exchangeability (IAS 21)



## 3. Provide disclosures

**The entity would be required to disclose**

| | | |
|---|---|---|
| Details of the currency and a description of the restrictions | Description of the transactions affected | Carrying amount of assets and liabilities denominated in the currency |
| The spot rate used and whether that rate is an observable rate or one that has been estimated | Description of the estimation technique applied, and qualitative and quantitative information about the inputs used | Information about risks to which the entity is exposed because of the currency's lack of exchangeability |

Additional disclosures apply when a foreign operation's functional currency lacks exchangeability

# Questions for EEG members

- Do EEG members have:
  - any questions or comments on the Board's proposals?
  - any comments regarding application of the Board's proposals?

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