Question 3—Disclosure

Paragraphs 57A–57B and A16–A18 of the draft amendments to IAS 21 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.

Paragraphs BC21–BC23 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why..

Related Paras:

Para 57A: When an entity estimates a spot exchange rate because exchangeability between two currencies is lacking (see paragraph 19A), the entity shall disclose information that enables users of its financial statements to understand how the lack of exchangeability affects, or is expected to affect, the entity's financial performance, financial position and cash flows. To achieve this objective, an entity shall disclose information about:

(a) the nature and financial effects of the lack of exchangeability;

(b) the spot exchange rate(s) used;

(c) the estimation process; and

(d) the risks to which the entity is exposed because of the lack of exchangeability.

Para 57B: The requirements in paragraphs A16–A18 specify how an entity applies paragraph 57A.

Disclosure when exchangeability is lacking

Para A16: An entity shall consider the detail necessary to satisfy the disclosure objective in paragraph 57A. An entity shall disclose the information specified in paragraphs A17–A18 and any additional information necessary to meet the objective in paragraph 57A. An entity need not duplicate information required by paragraphs A17–A18 if it has provided the information elsewhere in its financial statements.

Para A17: In applying paragraph 57A, an entity shall disclose:

(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 rates used and whether those rates are:

(i) observable exchange rates (as permitted by paragraph 19B); or

(ii) spot exchange rates determined using an estimation technique;

(e) a description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs used in that estimation technique; and

(f) qualitative information about each type of risk to which the entity is exposed because of the lack of exchangeability, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

Para A18: When a foreign operation's functional currency is not exchangeable into the presentation currency, an entity shall also 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.

Disclosure

BC21: Estimating a spot exchange rate when exchangeability between two currencies is lacking could materially affect an entity's financial statements. That estimation would also require the use of judgements and assumptions. The Board was informed that users of financial statements are interested not only in the effect on the financial statements of estimating the spot exchange rate, but in understanding an entity's exposure to a currency that lacks exchangeability. Users of financial statements said information about the nature and financial effects of a lack of exchangeability, the spot exchange rate used, the estimation process and the risks to which the entity is exposed would help their analyses. Accordingly, the disclosure requirements are designed to provide users of financial statements with such information.

BC22: The Board proposes to include the last sentence of paragraph A16 because the Board observed that some of the requirements in proposed paragraphs A17–A18 are similar to those in other IFRS Standards; an entity might already provide some of the information those proposed paragraphs require when applying other Standards. For example, an entity might already provide:

(a) summarised financial information about a foreign operation applying paragraphs B10 or B12–B13 of IFRS 12 Disclosure of Interests in Other Entities; BC20 BC21 BC22 LACK OF EXCHANGEABILITY—PROPOSED AMENDMENTS TO IAS 21 © IFRS Foundation 27

(b) information about the methodology used to estimate the spot exchange rate applying paragraphs 125–133 of IAS 1 Presentation of Financial Statements; and

(c) some (or all) of the qualitative and quantitative information about the nature and extent of risks arising from a currency that lacks exchangeability applying the disclosure requirements in IFRS 7 Financial Instruments: Disclosures and IFRS 12.

BC23: The Board concluded that it was unnecessary to include specific disclosure requirements regarding significant judgements made in assessing exchangeability. This is because paragraph 122 of IAS 1 would already require disclosure of such judgements to the extent they are part of the judgements management has made that have the most significant effect on the amounts recognised in the financial statements.

Rationale & Comments

The above said amendment is related to **Disclosures** which 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.

I agree to proposal and it is appropriate fir disclosure requirements considering all factors that might affect presentation of financial statement. The proposal contains detailed disclosure requirement carrying out emphasis on all aspects of the transaction to neutralize the effect of non-exchangeability.

The disclosures include the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency, a description of affected transactions, the carrying amount of affected assets and liabilities, the spot exchange rates used, a description of any estimation technique the entity has used and qualitative information about each type of risk to which the entity is exposed because of the lack of exchangeability, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

Question 4—Transition

Paragraphs 60L–60M of the draft amendments to IAS 21 require an entity to apply the amendments from the date of initial application, and permit earlier application.

Paragraphs BC24–BC27 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

60L: Lack of Exchangeability, issued in [Month, Year], amended paragraphs 8 and 26 and added paragraphs 19A–19C and 57A–57B and Appendix A. An entity shall apply those amendments from the beginning of annual reporting periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. The date of initial application is the beginning of the annual reporting period in which an entity first applies those amendments.

60M: In applying Lack of Exchangeability, an entity shall not restate comparative information. Instead:

(a) when the entity reports foreign currency transactions in its functional currency, and exchangeability between its functional currency and the foreign currency is lacking (as described in paragraphs A2–A11), the entity shall:

(i) translate affected foreign currency monetary items, and nonmonetary items measured at fair value in a foreign currency, at the date of initial application 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 at the date of initial application;

(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 exchangeability between its presentation currency and its functional currency (or the foreign operation's functional currency) is lacking (as described in paragraphs A2–A11), the entity shall:

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

(ii) translate affected equity items at the date of initial application 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—at the date of initial application.

Entities already applying IFRS Standards

BC24: The Board developed the proposed transition requirements in paragraphs 60L–60M because it concluded that the expected benefits of requiring entities to apply the amendments retrospectively, applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, would not outweigh the costs. In particular:

(a) applying the amendments retrospectively would require an entity to assess exchangeability in prior periods and then estimate spot exchange rates for those prior periods. In many cases this would be likely to require the use of hindsight and, even if possible without hindsight, would be costly.

(b) a lack of exchangeability is generally accompanied by high inflation and other economic events that make trend information less useful for investors than in other situations. The Board was informed that, in these situations, users of financial statements are interested in understanding an entity's exposure at the reporting date to the currency that lacks exchangeability. The Board therefore concluded that an entity should apply the amendments from the date of initial application and not restate comparative information.

BC25: In developing the proposed transition requirements, the Board decided:

(a) to require an entity to translate items using the estimated spot exchange rate at the date of initial application if the related requirement in IAS 21 requires an entity to translate that item using the closing rate.

(b) not to permit an entity to retranslate other items, even though they may have been translated using a spot exchange rate that is not aligned with the proposed amendments. This is because the expected benefits of requiring an entity to identify those items and then estimate an appropriate exchange rate would not outweigh the cost.

(c) to require an entity to recognise any effect of initially applying the amendment as an adjustment to:

  (i) the opening balance of retained earnings when the entity reports foreign currency transactions. For these transactions, an entity generally recognises exchange differences in profit or loss. Requiring entities to separately track any exchange differences recognised in other comprehensive income would introduce unnecessary complexity.

  (ii) (ii) the cumulative amount of translation differences in equity when the entity uses a presentation currency other than its functional currency or translates the results and financial position of a foreign operation. In these situations, an entity generally recognises exchange differences in other comprehensive income and accumulates those differences in a separate component of equity.

First-time adopters

BC26: The Board concluded that a specific exemption from retrospective application of the amendments would be unnecessary for a first-time adopter because:

(a) IFRS 1 does not provide any exemption for a first-time adopter that reports foreign currency transactions in its financial statements. The entity therefore applies all the applicable requirements in IAS 21 retrospectively when reporting foreign currency transactions.

(b) paragraph D13 of IFRS 1 already allows a first-time adopter to deem the cumulative translation differences for all foreign operations to be zero at its date of transition to IFRSs.

BC27: The requirements in IFRS 1 related to severe hyperinflation refer to, but do not define, exchangeability. The Board concluded that it should align the wording in IFRS 1 with the proposed amendments.

Rationale & Comments

Proposal is agreed and appreciated. The amendment is regarding proposal for Transition phase. Board's rationale specifically for retrospective amendment is seemingly very practical as stated in BC24 (mention again below):

(a) applying the amendments retrospectively would require an entity to assess exchangeability in prior periods and then estimate spot exchange rates for those prior periods. In many cases this would be likely to require the use of hindsight and, even if possible without hindsight, would be costly.

(b) a lack of exchangeability is generally accompanied by high inflation and other economic events that make trend information less useful for investors than in other situations. The Board was informed that, in these situations, users of financial statements are interested in understanding an entity's exposure at the reporting date to the currency that lacks exchangeability. The Board therefore concluded that an entity should apply the amendments from the date of initial application and not restate comparative information.

Transitional process suggested in amendment is considerable for both entities who are also applying IFRS Standards and entities who are first time adopters.

A little more clarity on how retrospective amendments would apply on First Time adopters in line with IFRS-1 would be more appreciated.