Exposure Draft

Lack of Exchangeability

Proposed amendments to IAS 21

Question 1—Assessing exchangeability between two currencies Paragraph 8 of the draft amendments to IAS 21 specifies that a currency is exchangeable into another currency when an entity is able to exchange that currency for the other currency. Paragraphs A2–A11 of [draft] Appendix A to IAS 21 set out factors an entity considers in assessing exchangeability and specify how those factors affect the assessment.

Paragraphs BC4–BC16 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.

Comments:

1.1 SIRC of ICAI agrees with the proposed amendments regarding the assessment of lack of exchangeability for the following reasons:

- It gives clarity
- It increases transparency of what estimation method is used in such situations
- It can reduce diversity in practice
- The proposed guidance not too restrictive as it ignores normal administrative delays and explains what constitutes a normal administrative delay
- It provides that an entity to consider its ability to obtain the other currency either directly or indirectly
- the entity`s assessment 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.
- the ED proposes that a lack of exchangeability exists when the entity is able to obtain 'no more than an insignificant amount' of the other currency. This would align more closely with the view that an entity should estimate the spot exchange rate only in a few circumstances.

Suggestions:

1.2 SIRC of ICAI proposes that the Board may clarify the relationship between the notion 'normal administrative delay' and the definition of the 'spot exchange rate' provided in paragraph 8 of IAS 21, to explain that `normal administrative delay` does not prevent the immediate fixing of the exchange rate as required by the definition.

1.3 SIRC of ICAI agrees that the ED proposes that enforceability is a matter of law and that whether enforceable rights and obligations arise depends on facts and circumstances. However, the Board may provide reasons for the lack of enforceability of rights/obligations in the described jurisdiction.

1.4 SIRC of ICAI suggests to explain the reasons for the result of assessment of lack of enforceable rights and obligations.

1.5 The IAS may elaborate on the fact that the notion of 'normal administrative delay' does not contradict the definition of a 'spot exchange rate' set out in IAS 21 and that 'normal administrative delay' does not refer to the time required for fixing the exchange rate.

1.6 The IAS may provide reasons for the lack of enforceability of rights/obligations in the described jurisdiction.

1.7 At some places only one exchange rate exists between two currencies in which case the purpose for which an entity intends to use the other currency would neither change the exchange rate nor affect the entity's ability to obtain that other currency, though the Exposure Draft recognizes that it is important for an entity to consider the purpose for which it obtains the other currency when assessing exchangeability.

Question 2—Determining the spot exchange rate when exchangeability is lacking Paragraphs 19A–19C and paragraphs A12–A15 of the draft amendments to IAS 21 specify how an entity determines the spot exchange rate when a currency is not exchangeable into another currency.

Paragraphs BC17–BC20 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.

Comments:

2.1 SIRC of ICAI agrees with the proposed approach on how to determine the spot exchange rate when exchangeability is lacking. SIRC of ICAI also agrees with the proposed guidance to use a principles-based approach to estimate spot exchange rates by setting up conditions that an exchange rate must fulfil for the following reasons:

- Establishing conditions to support the estimation process is more appropriate then prescribing detailed rules.
- A detailed description of a proposed model would be too burdensome.
- An entity would not necessarily need to use a complex estimation technique as in some situations an entity could estimate the spot exchange rate by adjusting an observable exchange rate.

Suggestions:

2.2 Further explanatory content would contribute to understanding and would simplify application and result in less diversity in practice.

2.3 The IAS21 may improve the guidance related to the assessment of the conditions to determine whether an entity may use an observable exchange rate as an estimated spot exchange rate and when the conditions are not met, the effect of the assessment on the estimation of spot exchange rate.

2.4 When permitting to use observable rates the Board may explain the use to streamline the process of applying the proposed guidance and consequently reduce the application cost and reduce possible divergence in practice.

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.

Comments:

3.1 SIRC of ICAI agrees with the proposed disclosure objective and the disclosure requirements as proposed in the ED for the following reasons:

- It focusses on the disclosure requirements to help user to understand the implications of a lack of exchangeability on the entity's financial statement.
- It prevents duplicate disclosures when information is disclosed elsewhere in the financial statements.

Suggestions:

3.2 The ED may include an additional disclosure requirement about situations where entities are not able to access foreign capital resources on a non-temporary basis so that it is useful to understand the impact of restrictions.

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.

Comments:

4.1 SIRC of ICAI supports the proposed transition requirements for the reasons stated below:

- Retrospective application would require an entity to assess exchangeability in prior periods and then estimate spot exchange rates for those prior periods.
- The effects of initial application shall be recognized as an adjustment to the opening balance of retained earnings when the entity reports foreign currency transactions.
- Separately tracking any exchange differences recognised in other comprehensive income would introduce unnecessary complexity.
- The effects of initial application shall be recognized as an adjustment to 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, as those exchange differences are generally recognised in other comprehensive income and accumulated in a separate component of equity.
- Additional transition requirements for first -time adopters are not required while allowing first-time adopter to deem the cumulative translation difference for all foreign operations to be zero at its date of transition.