ED/Ind AS 21/2023/3

Exposure Draft

Lack of Exchangeability

Amendments to Ind AS 21

(Last date of comments - December 1, 2023)

Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Definitions

Comments:

In developing these amendments, the ASB of ICAI decided not to set a hierarchy of observable exchange rates to use in estimating a spot exchange rate. Whilst a hierarchy generally has a benefit of increasing consistency, in this case, it might have imposed additional costs without providing more useful information. The combination of a clear objective for the estimation, and a choice of what approach to take to make the estimation, allows entities to decide on a cost-effective approach considering their specific circumstances.

Elaboration on the definitions

Comments: NIL

Estimating the spot exchange rate when a currency is not exchangeable (paragraphs A11–A17)

Comments:

The amendments do not specify how an entity estimates the spot exchange rate to meet the objective, but they note that an entity can use an observable exchange rate without adjustment or another estimation technique.

Reporting foreign currency transactions in the functional currency

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Reporting at the ends of subsequent reporting periods

Comments:

The amendment has omitted the sentence "If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made."

It is a consequential amendment, since Ind AS provides for new guidance.

Disclosure

Comments:

An entity is required to consider how much detail is necessary to satisfy the above disclosure objective. However, the risks to which the entity is exposed because of the currency not being exchangeable into the other currency. This requires a significant degree of judgement and a good understanding of the facts and circumstances regarding the currencies that suffer from a lack of exchangeability which requires technical expertise.

Effective date and transition

SIRC of ICAI agrees with those amendments for annual reporting periods beginning on or after 1 April 2025.

The ED states that an entity shall not restate comparative information, since the amendments cannot be applied retrospectively which is a needed amendment. It has instead has certain guidelines which are necessary to study the impact of past transactions in the current year.

General Comments:

Although lack of exchangeability may occur relatively infrequently, in such cases economic conditions can often deteriorate quickly. Diversity in applying existing Ind AS 21 guidance may therefore lead to material differences in how events and transactions are reported.

The Amendments respond to the concerns about diversity in practice in accounting when a currency is not exchangeable into another currency. The Amendments address a matter previously partly not covered in the accounting requirements for the effects of changes in foreign exchange rates.

The Amendments require an entity to provide disclosures when the entity estimates a spot exchange rate because a currency is not exchangeable into another currency. This requirement is expected to lead to more relevant information being available.

A transition approach that would require applying the Amendments retrospectively would require an entity to assess exchangeability in prior periods and then estimate spot exchange rates for those prior periods. It is to be noted that the current number of currencies that cannot be exchanged into another currency is limited. The Amendments are likely to improve the quality of financial reporting.

The responsibility to determine the functional currency lies with the entity's management, yet it is also the responsibility of the auditors to review critically and exercise professional judgement and scepticism, to ensure that the assessment made by management is appropriate and in accordance with Ind AS 21 principles.