Guwahati Branch
Eastern India Regional Council
The Institute of Chartered Accountants of India
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Exposure Draft of Comments on Lack of Exchangeability- Proposed Amendments to IAS 21

Review Comments

Question 1-Assessing exchangeability between two currencies

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

Response

We agree with the proposal.

Reason

IAS 21 specifies the exchange rate to use in reporting foreign currency transactions when exchangeability between two currencies is temporarily lacking. However, IAS 21 as applicable, till date, does not specify what an entity is required to do when a lack of exchangeability is not temporary. The amendments set out factors an entity should consider in assessing exchangeability and specify how those factors affect the assessment.
Additionally, the Amended Draft addresses the following aspects:

- *Exchangeability and a lack of exchangeability*
- *Time frame*
- *Ability to obtain the other currency*
- *Purpose of obtaining the other currency*
- *Ability to obtain only limited amounts of the other currency*

Question 2-Determining the spot exchange rate when exchangeability is lacking

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

Agreed with the proposal

Reason
The amendment sets out how an entity determines the spot exchange rate when a currency is not exchangeable into another currency. The amendment clearly guides the reporting

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entities and stakeholders that the exchange rate is a rate at which an entity would have been able to enter into an exchange transaction had the currency been exchangeable into the other currency; a rate that would have applied to an orderly transaction between market participants and a rate that faithfully reflects the prevailing economic conditions.
The amendment also states that an entity may use an observable exchange rate as the estimated spot exchange rate, considering factors such as -

- *whether several exchange rates exist*
- *the purpose for which the currency is exchangeable*
- *the nature of the exchange rate—a free-floating observable exchange rate is usually more acceptable*
- *the frequency with which exchange rates are updated*
- *inflation rates*

Keeping in line with prudential norms, the IASB rightly decided not to permit or require the use of a blended exchange rate (a weighted average exchange rate reflecting both the rate at which the entity could obtain the other currency for a portion of the transaction or balance and an estimated exchange rate for the remaining portion).

Question 3—Disclosure

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

Response –

Agreed with the proposal

Reason

The IASB, in dealing with this requirement, has clearly set out in the amendment, that there is a need of Disclosure when exchangeability is lacking. This will be very useful for reporting entities in providing additional disclosure on information about:

(a) the nature and financial effects of the lack of exchangeability;
(b) the spot exchange rate(s) used;
(c) the estimation process;
(d) the risks to which the entity is exposed because of the lack of exchangeability.

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(e) the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;
(f) a description of affected transactions;
(g) the carrying amount of affected assets and liabilities;
(h) the spot exchange rates used

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

(j) 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.

The IASB has provided additional guidance about disclosure matters when a foreign operation's functional currency is not exchangeable into the presentation currency. In such cases, the reporting entity will now be required to 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;

(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.

Use of estimation in this disclosure

The estimation would also require the use of judgements and assumptions. It is natural that the users of financial statements will desire 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 and these will help their analyses. Hence, IASB has stated that the disclosure requirements are designed to provide users of financial statements with such information.

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Question 4—Transition

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

Response - *Agreed with the proposal*

Reason

The IASB has clearly provided guidance stating that 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. The IASB has clarified that in applying Lack of Exchangeability, an entity shall not restate comparative Information.

Potential Issue for Reporting entities

If an entity is applying the amendments retrospectively, then it 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 expensive proposition and thus cost of compliance will get increased.
In light of the above, the IASB has provided clear-cut decision, concluding that an entity should apply the amendments from the date of initial application and not restate comparative information.
The IASB has also considered the issue of applicability for ***First-time adopters.***

Dated at Guwahati,
15th day of July, 2021

For, Guwahati Branch of EIRC of ICAI

(Sd/-)
CA. Kamal Mour
(Chairman)