30 January 2024
Agenda Paper 4

Lack of Exchangeability (Amendments to IAS 21): Draft Endorsement Criteria Assessment

Executive Summary

Project Type	Endorsement and adoption
Project Scope	Narrow-scope

Purpose of the paper

The purpose of this paper is to:

- Obtain Board feedback on the Draft Endorsement Criteria Assessment (DECA) and related Invitation to Comment (ITC) for the narrow-scope amendments *Lack of Exchangeability* (Amendments to IAS 21) (the Amendments).
- Request the Board's approval to publish the DECA and ITC on the UKEB website for stakeholder consultation with a 90-day comment period.

Summary of the Issue

The UKEB undertook stakeholder engagement and submitted a comment letter to the IASB in August 2021 on the IASB's 2021 Exposure Draft (ED) setting out proposals to amend IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The UKEB supported the original proposals in the ED and only suggested some minor clarifications/enhancements to improve the wording of the Amendments.

During November 2023, the IASB issued the Amendments clarifying the requirements for assessing exchangeability, the exchange rate to use when there is a lack of exchangeability and the related disclosures. The Amendments introduce some changes to recognition, measurement and disclosure requirements in IFRS Accounting Standards. The final Amendments are consistent with the ED proposals but have been enhanced in ways that address the concerns raised by the UKEB.

The purpose of the DECA is to assess whether the Amendments meet the statutory criteria for adoption set out in SI 2019/685[1]. The DECA includes:

- a description of the UK statutory requirements for adoption of new and amended international accounting standards;

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[1] The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685 (SI 2019/685)

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• a description of the Amendments; and • an assessment of whether the Amendments meet the statutory criteria for adoption. The Amendments are effective for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted. Some transition relief is provided.
Decisions for the Board
1. Does the Board have any comments on the DECA (Appendix A) or the Invitation to Comment (ITC) (Appendix B)? 2. Does the Board agree that, subject to any amendments or additions required at this meeting, the DECA and ITC can be published for public consultation with a 90-day comment period?
Recommendation
Subject to any amendments or additions required by the Board, the Secretariat recommends that the Board approves the DECA and ITC for public consultation with a 90-day comment period.
Appendices
Appendix A [Draft] Endorsement Criteria Assessment of *Lack of Exchangeability* (Amendments to IAS 21) Appendix B DECA–Invitation to Comment Appendix C Your Details

Lack of Exchangeability (Amendments to IAS 21): Draft Endorsement Criteria Assessment

Background

1. In August 2023, the IASB issued the narrow scope amendments *Lack of Exchangeability* (Amendments to IAS 21) (the Amendments).

2. The Amendments required companies to use a consistent approach in assessing if there is lack of exchangeability between currencies, and when there is, the exchange rate to use and the related disclosures.

3. The Amendments were intended to address diversity in practice and improve the usefulness of the information provided to the investors.

4. The Amendments are effective for annual periods beginning on or after 1 January 2025. Earlier application is permitted. Some transition relief is provided.

Stakeholder outreach

5. The UKEB gathered feedback on the IASB's initial proposals from a diverse range of UK stakeholders. That feedback informed the UKEB comment letter to the IASB, submitted on 31 August 2021.

6. The IASB issued its final Amendments on 15 August 2023. Since their publication, the UKEB has contacted a limited number of stakeholders based on their previous engagement and interest in the project in order to obtain feedback for this project. Specifically these stakeholders were:

    a) A preparer (large UK-listed multinational consumer products);

    b) Accounting firms and institutes Advisory Group (AFIAG); and

    c) The UK accounting regulator, the FRC.

7. In response to the feedback on the Project Initiation Plan (PIP) at the November 2023 Board meeting, the Secretariat approached a further 11 UK companies (identified through desk-based research) with potential material operations in the countries subject to a lack of exchangeability. Those companies were asked:

i) If they had material operations in countries exposed to a lack of exchangeability?

ii) Were the amendments largely consistent with current practice?

iii) Did they see the possibility of being exposed in the future to a lack of exchangeability in other jurisdictions?

iv) Any expected material costs to be incurred due to these amendments?

8. Three large UK companies responded with feedback (noted below) that is aligned with the UKEB's assessment. Respondent 1, FTSE 100, Consumer goods company noted (in part):

> "We are supportive of the Amendments to IAS 21 which finally recognises that there can often be a lack of exchangeability which is not due to a suspension of rates of exchange, but rather due to insufficient amounts of hard currency being available to the reporting entity on an on-going basis. The territories for which we need to use alternative rates due to a lack of exchangeability are not super-material".

9. Respondent 2, FTSE 100, Telecommunications company noted (in part):

> "We have evaluated the Amendments to IAS 21 and determined that this will not be a material issue for us. In Latin America we typically trade in USD which should be readily exchangeable (and those entities are not material for our Group). We have discontinued our operations from the other [affected country]".

10. Respondent 3, FTSE 100, Metals and mining company noted (in part):

> "Our business in the [affected country] is impacted by these amendments, however we do not foresee a material impact on the Group as a result of the amendments and don't expect material costs to adopt".
>
> "We believe that the amendments are largely consistent with the current practice under IAS 21. We support that the amendments are adopted for use in the UK to drive consistency with the international framework".

11. Feedback gathered through discussions with the Investor Advisory Group (IAG), the Preparer Advisory Group (PAG), AFIAG were consistent with these views. Advisory group members noted that the Amendments are largely consistent with

the current practice and only affect a few UK entities. This outreach is reflected in the DECA.

12. Announcement of the DECA consultation will take place through the usual channels. Stakeholders will have the opportunity to provide responses to the DECA. However, as already noted in the PIP, no additional stakeholder outreach is planned.

Next steps and timeline

13. In accordance with the PIP, the Board's aim would be to ensure an adoption decision is reached before the expected effective date of the Amendments of 1 January 2025.

14. Subject to amendments or additions to the DECA required by the Board, the proposed timeline for publication, public consultation and subsequent finalisation of the Endorsement Criteria Assessment (ECA) is set out in the table and diagram below. Note that all dates are indicative and subject to modification. The Board will be alerted to any significant changes.

Date	Milestone	Status
30 January 2024	Presentation of Draft Endorsement Criteria Assessment (DECA) for approval	This meeting
DECA consultation period (90 days): 5 February – 6* May 2024		
24 May 2024	Verbal update to the Board on feedback received on the DECA (if significant)	*To be completed*
28 June 2024	Consideration of an adoption package for approval and the draft Due Process Compliance Statement for the project. Board members provide a tentative vote.	*To be completed*
Mid-July 2024	Estimated period for formal voting, publication of voting outcome and Adoption Package on the UKEB website	*To be completed*
18 July 2024	Final Due Process Compliance Statement for noting.	*To be completed*

*TBC

Questions for the Board
1. Does the Board have any comments on the DECA (Appendix A) or the Invitation to Comment (ITC) (Appendix B)? 2. Does the Board agree that, subject to any amendments or additions required by the Board, the DECA and ITC can be published for public consultation with a 90-day comment period?

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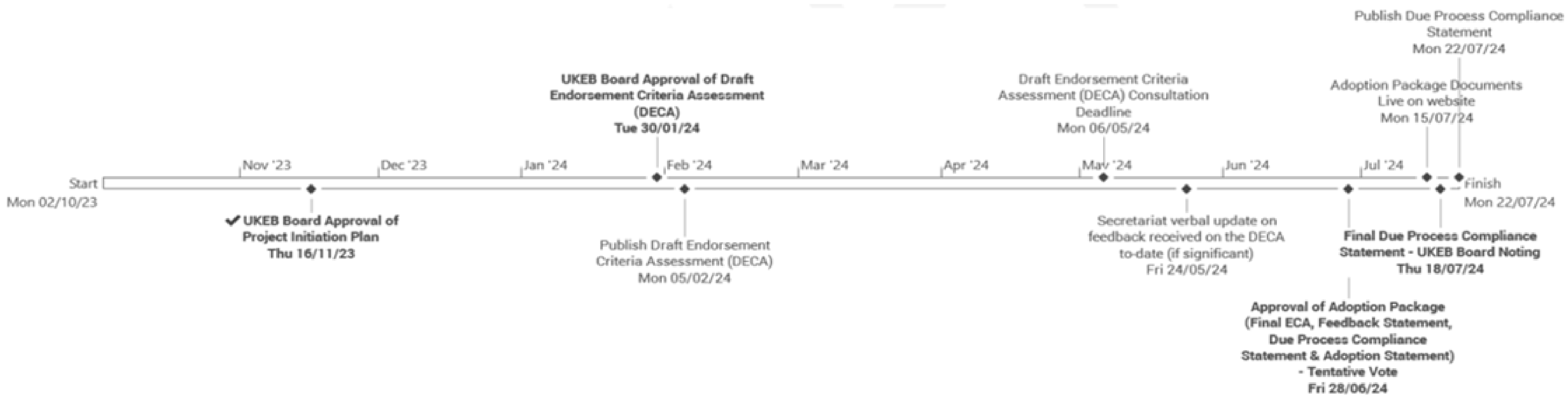
Endorsement and Adoption timeline (as proposed in November 2023 PIP)



UK Endorsement Board

Draft Endorsement Criteria Assessment

Lack of Exchangeability—Amendments to IAS 21

January 2024

Contents

Introduction

Purpose

1. The purpose of this Draft Endorsement Criteria Assessment (DECA) is to determine whether the *Lack of Exchangeability* (Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*), issued by the International Accounting Standards Board (IASB) in August 2023 meet the UK's statutory requirements for adoption as set out in Regulation 7 of Statutory Instrument 2019/685[1] (SI 2019/685).

2. The Amendments have an effective date of 1 January 2025 with earlier application permitted.

3. The UKEB actively influenced the development of the Amendments. This included submitting a Final Comment Letter on 31 August 2021[2] in response to the IASB's Exposure Draft ED/2021/4[3] *Lack of Exchangeability*.

Background to the Amendments

4. The IFRS Interpretations Committee received a submission about the determination of the exchange rate when there is a long-term lack of exchangeability as IAS 21 *The Effects of Changes in Foreign Exchange Rates* does not include explicit requirements on the exchange rate an entity uses when the spot exchange rate is not observable.

5. To address the matter the IASB proposed narrow scope amendments to IAS 21 to clarify the requirements for assessing exchangeability, the exchange rate to use when there is a lack of exchangeability and the related disclosures. The Amendments aim to address diversity in practice and improve the usefulness of the information provided to the investors.

6. Section 2 in this DECA provides a brief description of the Amendments.

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1 The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685 (SI 2019/685)

2 UKEB Final Comment Letter – Lack of Exchangeability

3 IASB ED/2021/4 Exposure Draft: Lack of Exchangeability

Scope of the adoption assessment

7. The Amendments make changes to the mandatory parts of IAS 1 and IAS 21 and to Application Guidance that is an integral part of IAS 21. These changes to the mandatory parts of the standard forms part of the UKEB's adoption assessment.

8. The Amendments also include additions to the Illustrative Examples and Amendments to the Basis for Conclusions of IAS 21. Neither of these are a mandatory part of IAS 21. As the UK-adopted international accounting standards comprise only the mandatory[4] sections of standards, the amendments to the Illustrative Examples and Basis for Conclusions of IAS 21 are not adopted by the Board and are not considered in this DECA.

Structure of the assessment

9. The UKEB's analysis is presented in the following sections:

   a) **Section 1:** describes UK statutory requirements for adoption of new or amended international accounting standards; and

   b) **Section 2:** discusses how the Amendments meet the criteria in Section 1.

Do the Amendments lead to a significant change in accounting practice?

10. A standard adopted by the UKEB under Regulation 6 of SI 2019/685 that it considers is likely to lead to a 'significant change in accounting practice', is subject to the requirements in paragraph 3 of Regulation 11 of SI 2019/685 that the UKEB:

> "(a) carry out a review of the impact of the adoption of the standard; and
>
> (b) publish a report setting out the conclusions of the review no later than 5 years after the date on which the standard takes effect (being the first day of the first financial year in respect of which it must be used)".

11. **Section 2** of the DECA discusses whether the Amendments lead to a significant change in accounting practice and [tentatively] concludes that they do not.

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4 Mandatory pronouncements are IFRS Standards, IAS Standards, Interpretations and mandatory application guidance. Non-mandatory guidance includes basis for conclusions, dissenting opinions, implementation guidance and illustrative examples, together with the IFRS practice statements. This categorisation is set out in the introduction to the IASB yearly bound volumes.

Section 1: UK statutory requirements for adoption

UK statutory requirements

1.1 Paragraph 1 of Regulation 7 of SI 2019/685 requires that an international accounting standard only be adopted if:

> "(a) the standard[5] is not contrary to either of the following principles—
>
> (i) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;
>
> (ii) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;
>
> (b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and
>
> (c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management."

1.2 This DECA assesses the criteria above in the following order:

a) Whether the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management (Regulation 7(1)(c)).

b) Whether the Amendments are not contrary to the principle that an entity's accounts must give a true and fair view (Regulation 7(1)(a)).

c) Whether use of the Amendments is likely to be conducive to the long term public good in the UK (Regulation 7(1)(b)). Regulation 7(2) of SI 2019/685 includes specific areas to consider for this assessment. They are:

i. whether the Amendments are likely to improve the quality of financial reporting;

5 The term "standard" includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), amendments to those standards and related Interpretations (Standing Interpretations Committee / International Financial Reporting Interpretations Committee interpretations) issued or adopted by the IASB. This ECA relates to amendments to those standards.

ii. the costs and benefits that are likely to result from the use of the Amendments; and

iii. whether the Amendments are likely to have an adverse effect on the economy of the UK, including on economic growth.

Relevance, Reliability, Understandability and Comparability[6]

1.3 Information is **relevant** if it is capable of making a difference in the decision-making of users[7] or in their assessment of the stewardship of management. The information may aid predictions of the future, confirm or change evaluations of the past, or both.

1.4 Financial information is **reliable** if, within the bounds of materiality, it:

a) can be depended on by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;

b) is complete; and

c) is free from material error and bias.

1.5 Financial information should be readily **understandable** by users with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence.

1.6 Information is **comparable** if it enables users to identify and understand similarities in, and differences among, items. Information about an entity should be comparable with similar information about other entities and with similar information about the same entity for another period.

1.7 In conducting the overall assessment against the technical accounting criteria, the UKEB is required to adopt an absolute, rather than a relative, approach. This means that this assessment is an absolute one against the criteria (do the Amendments provide information that is understandable, relevant, reliable and comparable?) rather than a relative one (do the Amendments provide information that is more understandable, relevant, reliable and comparable than current, or any other, accounting?). When an assessment of any individual aspect or requirement of the Amendments uses comparative language (e.g. 'enhances comparability'), this does not mean that the objective is to reflect a real comparison in relative terms. Instead, the objective is to explain that any individual aspect or requirement of the Amendments has the potential to "enhance" one or more of the qualitative

6 These descriptions are based on the qualitative characteristics of financial statements in the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in April 2001. These qualitative characteristics became part of the criteria for endorsement and adoption of IFRS in the EU's IAS Regulation (1606/2002), and, subsequently, in SI 2019/685.

7 In the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB, the users of financial reports include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. While the UK has not adopted this *Framework*, in this document 'users' is taken to have a similar meaning.

characteristics. Consideration of whether the Amendments are likely to improve the quality of financial reporting is separate from this assessment and is included within the UK long term public good assessment in Section 2.

True and fair view assessment

1.8 As noted above, the first adoption criterion set out in Regulation 7(1) of SI 2019/685 requires that an international accounting standard can be adopted only if:

> "[....] the standard is not contrary to either of the following principles—
>
> a) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;
>
> b) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking; [....]"

1.9 For the sake of brevity, the UKEB refers to the assessment against this endorsement criterion as 'the true and fair view assessment' and to the principles set out in Regulation 7(1)(a) as the 'true and fair principle'. However, these abbreviated expressions do not imply that the assessment has considered anything other than the full terms of the endorsement criterion set out above.

1.10 The duty of the UKEB under Regulation 7(1)(a) is to determine generically, before a standard is applied to a set of accounts, whether that standard is 'not contrary' to the true and fair principle. In other words, it is an ex-ante assessment. The UKEB has therefore considered whether the Amendments contain any requirement that would prevent accounts prepared using the Amendments from giving a true and fair view.

1.11 The approach is to determine whether the Amendments are not contrary to the true and fair principle in respect of any of the specific items identified in Regulation 7(1)(a) (namely, the assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole. A holistic approach has been taken to this assessment, considering the impact of the Amendments taken as a whole, including its interaction with other UK-adopted international accounting standards.

1.12 For the purposes of the assessment, the UKEB considers the requirement in IAS 1 *Presentation of Financial Statements* for financial statements to 'present fairly the financial position, financial performance and cash flows of an entity'[8] to be equivalent to the Companies Act 2006 requirement for accounts to give a true and fair view.

8 Paragraph 15 of IAS 1 *Presentation of Financial Statements*.

1.13 This assessment is separate from the duty of directors under section 393(1) of the Companies Act 2006, which requires directors to be satisfied that a specific set of accounts gives a true and fair view of an undertaking's or group's assets, liabilities, financial position and profit or loss.

[Draft Adoption decision]

1.14 **[Section 2** of this DECA discusses how the Amendments meet the statutory endorsement criteria set out in this **Section 1**.

1.15 On the basis of these assessments, and subject to any stakeholder feedback, the UKEB [tentatively] concludes that the Amendments meet the statutory endorsement criteria. The UKEB is therefore of the view that it will adopt the Amendments for use in the UK.]

Section 2: Description and assessment of the Amendments

Amendments to IAS 21	
Title and issue date of final amendments	*Lack of Exchangeability* (Amendments to IAS 21) issued on 15 August 2023.
Origin	The IFRS Interpretations Committee (the Committee) received a submission about the determination of the exchange rate when there is a long-term lack of exchangeability as IAS 21 *The Effects of Changes in Foreign Exchange Rates* does not include explicit requirements on the exchange rate an entity uses when the spot exchange rate is not observable. The Committee was informed the circumstances in which a currency is not exchangeable might arise relatively infrequently, but when they do arise economic conditions can deteriorate rapidly. In those circumstances, diverse views on the application of IAS 21 could lead to material differences in the financial statements of entities affected by a currency that lacks exchangeability. To address this matter the IASB issued an Exposure Draft (ED) in April 2021 that proposed narrow scope amendments to IAS 21 *Lack of Exchangeability*. The amendments were intended to address diversity in practice and improve the usefulness of the information provided to the investors. The amendments required companies to use a consistent approach in assessing if there is a lack of exchangeability between currencies, and when there is, the exchange rate to use and the related disclosures. In response to feedback, the IASB clarified some factors for assessing exchangeability, provided choices for estimating the spot exchange rate in the Application guidance and clarified the objective for estimating the spot exchange rate in the main standard. The final Amendments were issued in August 2023. Further background can be found in previous UKEB papers (see July 2021, Agenda Paper 8) and the Project Initiation Plan (PIP) (see webpage for project).
What has changed?	**Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*** The Amendments make the following changes to IAS 21:

	• Amend paragraph 8 and add paragraphs 8A and 8B to clarify that a currency is exchangeable when an entity is able to exchange it for another currency through markets or exchange mechanisms that create enforceable rights and obligations without undue delay, at the measurement date and for a specified purpose. A currency is not exchangeable if an entity can only obtain an insignificant amount of the other currency. • Add paragraph 19A to make clear that when a currency is not exchangeable, an entity estimates the spot exchange rate that would have been applied to an orderly transaction between market participants at the measurement date and that would faithfully reflect the prevailing economic conditions. • Amend paragraph 26 to make clear that if there are multiple exchange rates available at the reporting date, the rate to use is that at which the future cash flows representing the transaction would be settled as if those cash flows occurred at the measurement date. • Add paragraph 57A which requires disclosure of information about how a currency, not exchangeable into another currency, affects the entity's financial position, financial performance, and cash flows. This includes disclosing the nature and financial effects of the lack of exchangeability; spot exchange rates used; estimation process; and the risks entity is exposed because of the lack of exchangeability. • Add paragraph 57B that directs to paragraphs A18-A20 for applying paragraph 57A. **Appendix A Application guidance (for amendments to IAS 21)** • Add Appendix A Application guidance, which forms an integral part of IAS 21, to help entities assess whether a currency is exchangeable into another currency and to estimate the spot exchange rate when a currency is not exchangeable. **Consequential amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*** • Amend paragraphs 31C (Use of deemed cost after severe hyperinflation) and D27 (Appendix D Exemptions from other IFRSs - Severe hyperinflation) and add paragraph 39AI (Effective date) to the IFRS 1 *First-time Adoption of International Financial Reporting Standards* to align the requirements related to severe hyperinflation to the amended IAS 21.
Transition requirements	An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2025. If an entity applies the Amendments for an earlier period, it shall disclose that fact.

	The entity shall not restate the comparative information when applying *Lack of Exchangeability.* Instead, the entity is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to either the retained earnings (if between foreign and functional currency) or the reserve for cumulative translation differences (if between functional and presentation currency).
Technical criteria assessment	
Relevance and reliability	Relevant financial information is capable of making a difference in the decisions made by users. Reliable financial information is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent. **Clarify the meaning of 'exchangeable' and 'not exchangeable'** The Amendments provide a definition of 'exchangeable' to help entities assess whether a currency is exchangeable or not exchangeable (lack of exchangeability). Clearly identifying currencies subject to a lack of exchangeability is relevant to the decisions made by users. It also faithfully represents that a currency subject to a lack of exchangeability should be considered differently from an exchangeable currency. The Application guidance includes a list of factors that entities should consider in their assessment of exchangeability and specifies how those factors affect the assessment. The Amendments support the reliability of the assessment of exchangeability by requiring that entities would only use markets that create enforceable rights and obligations. **Clarify how to 'estimate the spot exchange rate'** The Amendments make it clear that the entity's objective in estimating the spot exchange rate when a currency is not exchangeable is to reflect the rate that would have been applied to an orderly transaction (hypothetically) between market participants at the measurement date and that faithfully reflects the prevailing economic conditions. A market-based assessment is relevant to users as it is useful for the decisions they need to make and is reliable as it provides a reasonable, objective representation of the value of the currency. **Enhance 'disclosures' when the currency is not exchangeable** The Amendments introduce disclosure requirements when an entity estimates the spot exchange rate as a result of a lack of exchangeability.

	The new disclosures include, information on how the currency not being exchangeable affects, or is expected to affect, the entity's financial performance, financial position and cash flows. Specifically they require information about the nature and financial effects of lack of exchangeability, the spot exchange rate used, the estimation process and the risk to which entity is exposed. This information is relevant to users when they: • identify a company's transactions impacted by a lack of exchangeability; • assess the materiality or significance of a lack of exchangeability on the business; and, • understand how the transactions were valued.
Understandability	Financial information should be readily understandable by users with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence. **Clarify the meaning of 'exchangeable' and 'not exchangeable'** The Amendments make it clear how to assess exchangeability by providing a definition of 'exchangeable' and 'not exchangeable'. This is supported by application guidance that sets out factors to assess exchangeability and specify how those factors affect the assessment. This makes it understandable to both users and preparers what is meant by the terms 'exchangeable' and 'not exchangeable' and how they are assessed. **Clarify how to 'estimate the spot exchange rate'** The Amendments provide a principle-based approach clarification in relation to the estimation of the spot exchange rate and the approaches to be used to estimate the spot exchange rate, that is consistent with other requirements in relation to exchange rates elsewhere in IFRS. This ensures the approach taken to determine the spot exchange rate when a currency is not exchangeable into another currency is understandable to both users and preparers. **Enhance 'disclosures' when the currency is not exchangeable** Additional disclosures are required to enable users to understand whether an entity has a material exposure to a currency that lacks exchangeability and if it does, how it has estimated the spot exchange rate, including any inputs used in the estimation technique. These additional disclosures will help users understanding of the entity's exposure to a currency that lacks exchangeability and aid in their decision making.

	Overall, the Amendments do not introduce additional complexity that may undermine the understandability of the financial statements.
Comparability	Comparability enables users to identify and understand similarities and differences between items both from one period to another and across different entities. Consistency refers to the use of the same methods for the same items, over time and across entities, and helps to achieve comparability. **Clarify the meaning of 'exchangeable' and 'not exchangeable'** By providing a definition of 'exchangeable' and 'not exchangeable' and related guidance the amendments are expected to enhance consistency in the assessment of exchangeability. This will increase comparability across different entities and financial reporting periods for the same entity as similar factors will be used in making the assessment of exchangeability. **Clarify how to 'estimate the spot exchange rate'** The Amendments provide a principle-based approach rather than highly prescriptive requirements for estimating the spot exchange rate. Not having detailed estimation requirements could give rise to some diversity in estimating the spot exchange rate, potentially reducing the level of comparability. However, this reflects the different circumstances entities may encounter and balances the cost of complying with a more prescriptive requirement. The Amendments do not require restating comparative information on transition, instead translation adjustments are included in equity. This may reduce period to period comparability upon initial implementation of the Amendments. However, the proposed approach is consistent with current practice, and that the amounts are expected to be immaterial, this is not expected to cause a significant issue. Consistent comparative information will be provided from the second year of implementation. **Enhance 'disclosures' when the currency is not exchangeable** There are extensive disclosure requirements to allow users to understand how the currency not being exchangeable affects the financial statements and its exposure on the entity in the event of estimating the spot exchange rate. This is expected to result in more consistent disclosures related to the nature and financial effects of a currency not being exchangeable into another currency, the spot exchange rate used, the estimation process and the risks to which the entity is exposed which enables easier comparison by users.

Conclusion	Overall, the UKEB concludes that the Amendments meet the criteria of relevance, reliability, understandability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by Regulation 7(1)(c) of SI 2019/685.
True and fair view assessment	
Description	The Amendments, when considered: a) clarify the meaning of exchangeable and not exchangeable; b) clarify how to estimate the spot exchange rate; and c) enhance disclosures when the currency is not exchangeable. As discussed above, the Amendments are expected to enhance the relevance, reliability, understandability, and comparability of financial information. Reliability includes the notion of faithful representation of the economic substance of transactions and events. The technical accounting criteria assessment underpins the overall true and fair view assessment.
Conclusion	The assessment has not identified any requirement of the Amendments, when considered in conjunction with international accounting standards adopted for use in the UK, that would prevent individual or group accounts prepared using the Amendments from giving a true and fair view of the undertaking's or group's assets, liabilities, financial position and profit or loss. The UKEB is satisfied, therefore, that the circumstances in which the application of the Amendments would result in accounts which did not give a true and fair view would be extremely rare. Overall, the UKEB concludes that the Amendments are not contrary to the true and fair view principle set out in Regulation 7(1)(a) of SI 2019/685.
UK long term public good	
Description of entities that will be impacted	The UKEB's research and stakeholder feedback has indicated that only a few countries and currencies are expected to be subject to a lack of exchangeability. The number of UK companies that apply UK-adopted international accounting standards and have operations in these countries is relatively small. Limited outreach with impacted companies indicates the amendments are largely consistent with current practice, that those entities do not believe that a lack of exchangeability is a material matter, and that they are supportive of the proposed amendments.

	Therefore, the UKEB does not expect UK companies to be impacted significantly. The circumstances in which a lack of exchangeability happens are rare and no significant increase in UK companies being impacted is expected in the future. Overall, the Amendments relate to a matter that is not prevalent in the UK.
Do the amendments improve financial reporting?	The Amendments provide an improvement in financial reporting by clarifying how to assess exchangeability, the requirement for entities to estimate the spot exchange rate when there is a lack of exchangeability, and related disclosures. As discussed above in the technical accounting criteria assessment, these Amendments are expected to enhance the relevance, reliability, understandability, and comparability of financial information. Given this, it is expected that the Amendments will improve financial reporting.
Costs for preparers and users	<u>Preparers</u>: Given that the Amendments to IAS 21 are narrow in scope, the UKEB estimated preparers' adoption costs by conducting a qualitative assessment of the costs likely to be borne by preparers. The UKEB assessed whether preparers would face costs related to: • familiarisation; • design of data collection processes; • IT system changes; • governance processes; • external audit; and • other costs. The UKEB believes that preparers are not expected to face material **one-off familiarisation costs** related to the Amendments. The UKEB expects these costs to be minimal as preparer feedback indicates that the amendments are consistent with the approach applied in practice. The new disclosure requirements in the Amendments may lead to some costs to develop the specific disclosures for the first reporting period. However, the disclosure requirements are limited to circumstances when an entity estimates spot exchange rate due to lack of exchangeability. This is expected to happen relatively infrequently, and if it does, will only add minimal familiarisation costs. The UKEB assumes that some processes already exist in the affected companies for estimating the exchange rate when there is a lack of exchangeability. It is therefore not expected that entities will find it burdensome or will have to incur additional significant costs

	related to the **design of data collection processes** or related to **IT system changes.** The UKEB does not expect that other costs (i.e. **governance processes, external audit costs and other**) will be material, given the limited nature of amendments and in most cases the additional disclosures required would be limited and related to information already captured by governance and audit processes. <u>Users</u>: The UKEB does not expect **one-off familiarisation costs for users** to be material as the Amendments are not complex. The additional disclosures required are expected to be straightforward to interpret and are unlikely to require significant changes to data collection or IT systems for users.
Benefits for preparers and users	<u>Users</u>: The revised guidance is expected to enhance users' ability to understand and compare the assessment of exchangeability and determination of the exchange rate by different reporting entities and of the same entity across different financial reporting periods. In addition, users are likely to benefit from more relevant entity-specific disclosures about the impact on entities' financial statements when lack of exchangeability becomes material. The Amendments are expected to reduce the existing diversity in practice and increase the transparency about what method is applied for estimating the spot exchange rate and its implication on entities' financial statement. <u>Preparers</u>: The revised guidance provides greater clarity and makes it easier for preparers to make assessments about exchangeability, estimation of spot exchange rate and the requirement for related disclosures. The Amendments provide useful guidance to preparers, helping in its application, thus reducing diversity.
Whether the amendments are likely to have an adverse effect on UK economy	The Amendments are limited in scope and expected to bring improved financial reporting when compared to current standard/guidance. This is because the current standard (IAS 21) does not provide any guidance when the lack of exchangeability is not temporary. More specifically, the Amendments are expected to enhance the understandability and transparency of reporting to investors, as the Amendments clarify the meaning of 'exchangeable' and 'not exchangeable', clarify how an entity determines the spot exchange

	rate and add disclosure requirements when there is a lack of exchangeability. The Amendments provide useful guidance on areas previously unclear in IAS 21 and are expected to lead to consistent/comparable and better information for users understanding of the financial statements. The UKEB has not identified any factors that would indicate that these Amendments would lead to changes that are detrimental to the UK economy. As a result, the UKEB believes that these Amendments are not likely to have any adverse effect on the UK economy, including on economic growth. As such, the Amendments are likely to be conducive to the UK long term public good and improved financial reporting improves transparency.
Conclusion	Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments jointly, the UKEB concludes that the use of the Amendments is likely to be conducive to the long term public good in the UK as required by Regulation 7(1)(b) of SI 2019/685.

Do the Amendments lead to a significant change in accounting practice?

1.16 The UKEB is required to assess whether or not the Amendments are likely to lead to a 'significant change in accounting practice' and therefore meet the criteria for a post-implementation review.

1.17 The Amendments to IAS 21 and IFRS 1 do not fundamentally change the basic requirements in either standard or introduce new principles. The Amendments only clarify the term 'exchangeable' and 'not exchangeable', provide guidance to make exchangeability assessment and to estimate the spot exchange rate when there is a lack of exchangeability and to provide related disclosures. The Amendments are consistent with the approach taken in practice as indicated by the UK stakeholders.

1.18 As a result, the UKEB [tentatively] concludes that the Amendments are not likely to lead to a significant change in accounting practice and do not meet the criteria for a post-implementation review under Regulation 11 in SI 2019/685.

Appendix A: Glossary

Term	Description
The Amendments	*Lack of Exchangeability* (Amendments to IAS 21)
DECA	Draft Endorsement Criteria Assessment
ED	Exposure Draft
FCL	Final Comment Letter
IASB	International Accounting Standards Board
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard(s)
SI	Statutory Instrument
UKEB	UK Endorsement Board

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UKEB UK Endorsement Board

Appendix B: Invitation to Comment

Call for comments on Draft Endorsement Criteria Assessment of *Lack of Exchangeability* (Amendments to IAS 21)

Deadline for completion of this Invitation to Comment:
Close of business, [Monday 6 May 2024]
Please submit to:
UKEndorsementBoard@endorsement-board.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the endorsement and adoption of *Lack of Exchangeability* (Amendments to IAS 21) (the Amendments), published by the International Accounting Standards Board (IASB) in August 2023. The Amendments aim to clarify the requirements for assessing exchangeability, the exchange rate to use when there is a lack of exchangeability and the related disclosures. The Amendments aim to address diversity in practice and improve the usefulness of the information provided to the investors. The Amendments will be effective for annual periods beginning on or after 1 January 2025. Earlier application is permitted. The information collected from this Invitation to Comment is intended to help with the endorsement assessment.

UK endorsement and adoption process

The requirements for UK adoption are set out in Statutory Instrument 2019/685[1].

The powers to formally adopt international accounting standards for use in the UK were delegated to the UK Endorsement Board in May 2021[2].

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1 The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019: https://www.legislation.gov.uk/uksi/2019/685/made

2 The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021: https://www.legislation.gov.uk/uksi/2021/609/contents/made

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with IFRS Accounting Standards.

How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return it to UKEndorsementBoard@endorsement-board.uk by close of business on [Monday 6 May 2024].

Brief responses to individual questions are welcome, as well as comprehensive responses to all questions.

Privacy and other policies

The data collected through submitting this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)[3].

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide the UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other response document submitted; therefore, only information that you wish to be published should be submitted in such responses.

[3] These policies can be accessed from the footer in the UKEB website here: https://www.endorsement-board.uk

Assessment against endorsement criteria

Our draft assessment [tentatively] concludes that:

- the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685 (see Regulation 7(1)(c));
- application of the Amendments is not contrary to the principle that an entity's accounts must give a true and fair view as required by SI 2019/685 (see Regulation 7(1)(a)); and
- that the Amendments are likely to be conducive to the long term public good in the UK as required by SI 2019/685 (see Regulation 7(1)(b)), having considered:
  - whether they will generally improve the quality of financial reporting;
  - the costs and benefits that are likely to result from their use; and
  - whether they are likely to have an adverse effect on the economy of the UK, including on economic growth.

Our assessment of the Amendments is set out in **Section 2** of the DECA on the pages indicated below:

	Page
Rationale for the Amendments	10-11
Technical accounting criteria assessment	12-14
True and fair view	15
UK long term public good (including costs and benefits for preparers and users)	15-18

Questions

Technical accounting criteria assessment

1. Do you agree with the draft assessment of the Amendments against the technical accounting criteria? (please select one option)

Yes	☐	**No**	☐

2. Please include any comments you may have in response to question 1:

Click or tap here to enter text.

True and fair view

3. Do you agree with the draft assessment that the Amendments **are not contrary to the true and fair view requirement**? (please select one option)

Yes	☐	**No**	☐

4. Please include any comments you may have in response to question 3:

Click or tap here to enter text.

UK long term public good

5. Do you agree with the initial overall assessment of **costs and benefits** likely to arise from the Amendments? (please select one option)

Yes	☐	**No**	☐

6. Please include any comments you may have in response to question 5, including if any costs or benefits have been omitted:

Click or tap here to enter text.

7. Do you agree with the draft assessment that the Amendments are likely to be conducive to the **long term public good in the UK**? (please select one option)

Yes	☐	**No**	☐

8. Please include any comments you may have in response to question 7:

Click or tap here to enter text.

9. Do you have **any other comments** you would like to add?

Click or tap here to enter text.

Thank you for completing this Invitation to Comment

Please submit this document

by close of business on [Monday 6 May 2024] to:

UKEndorsementBoard@endorsement-board.uk

UKEB
UK Endorsement Board

Appendix C: Your details

Name: Click or tap here to enter text.

Email address: Click or tap here to enter text.

Are you responding:

On behalf of an organisation	☐
As an individual	☐

If responding on behalf of an organisation,

Name of organisation: Click or tap here to enter text.

Please select what best describes the organisation:

An organisation applying IFRS Accounting Standards	☐
A user of company accounts prepared under IFRS	☐
An auditor	☐
A regulator	☐
Other	☐

If your response was 'Other', please describe: Click or tap here to enter text.

Is your organisation a listed entity?

UK listed	☐
UK AIM listed	☐
Unlisted	☐

Would you be happy for UKEB to contact you by email if we wished to discuss some of your responses?

Yes	☐
No	☐

Privacy and other policies

The data collected through submitting this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and endorsing IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy.)[1]

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide the UKEB with an unsigned version of your submission. The UKEB prefer to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other document submitted; therefore, only information that you wish to be published should be submitted in such responses.

[1] **These policies can be accessed from the footer in the UKEB website here:** https://www.endorsement-board.uk