24 May 2024
Agenda Paper 4

UK Endorsement Board

Lack of Exchangeability (Amendments to IAS 21) – Adoption Package

Executive Summary

Project Type	Endorsement and Adoption
Project Scope	Narrow-scope

Purpose of the paper

This paper requests the Board's approval of the individual documents included as part of the 'adoption package' for the project to assess *Lack of Exchangeability* (Amendments to IAS 21) (the Amendments) for adoption.

The documents included in the adoption package are:

- The final Endorsement Criteria Assessment (ECA);
- The Feedback Statement;
- The draft Due Process Compliance Statement;
- The draft Adoption Statement for the Amendments; and
- The text of the UK-adopted international accounting standards (Amendments to IAS 21).

Summary of the Issue

The Amendments make changes to the mandatory parts of IAS 21 and IFRS 1 and to Application Guidance that is an integral part of IAS 21 and are intended to clarify the aspects related to a currency that is subject to a long-term lack of exchangeability. They provide guidance for assessing exchangeability, the exchange rate to use when there is a lack of exchangeability and the related disclosures.

The Amendments introduce changes to recognition, measurement and disclosure requirements in IFRS Accounting Standards. These changes to the mandatory parts of the Standards form part of the UKEB's adoption assessment. The Amendments are effective for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted.

The Amendments also include additions to the Illustrative Examples and Basis for Conclusions of IAS 21. As these are not mandatory parts of the IFRS Accounting Standards, and therefore not adopted for use in the UK, they are excluded from the endorsement assessment work.

The Secretariat has now completed all its work on the Amendments, and the results have been incorporated in the adoption package included in this paper.

The Board's assessment and decision on whether or not to adopt the Amendments for use in the UK is the focus of this paper. A tentative vote on the adoption of the Amendments will be held at this meeting. The voting forms for the formal, written vote will be sent to Board members after this meeting. The result of that formal vote, when completed, will be updated on the UKEB website, in line with the Board's terms of reference.
Decisions for the Board
1. Subject to any changes identified at this meeting, does the Board approve: a) the final ECA (Appendix A)? b) the Feedback Statement (Appendix B)? c) the draft Due Process Compliance Statement (Appendix C)? 2. Does the Board tentatively approve the adoption of the Amendments to IAS 21 for use in the UK?
Recommendation
The Secretariat recommends the Board approves the relevant documents in the adoption package and tentatively approves the adoption of the Amendments to IAS 21.
Appendices
Appendix A Final Endorsement Criteria Assessment Appendix B Feedback Statement Appendix C [Draft] Due Process Compliance Statement Appendix D [Draft] Adoption Statement of *Lack of Exchangeability* (Amendments to IAS 21) Appendix E Annex to the Adoption Statement: Text of the UK-adopted international accounting standards (Amendments to IAS 21)

Endorsement of the Amendments

UKEB endorsement project

1. In November 2023, the UKEB approved a Project Initiation Plan for the endorsement project on the Amendments.

2. At its January 2024 meeting, the Board approved the Draft Endorsement Criteria Assessment (DECA) for the Amendments for stakeholder consultation. The DECA set out the UKEB's provisional assessment of whether the Amendments met the UK's statutory requirements for adoption. The DECA was published on 5 February 2024 and was open for comment until 6 May 2024.

3. Based on the discussion at the January 2024 meeting, and at the suggestion of the Board, the Secretariat has brought forward the timeline for endorsement (originally planned for June 2024 in the PIP) by a month. This will ensure that stakeholders have clarity on application of these Amendments, which are effective from 1 January 2025, at the earliest possible date.

Scope of the adoption assessment

4. The Amendments make changes to the mandatory parts of IAS 21 and IFRS 1 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

5. The Amendments also include additions to the non-mandatory guidance, the Illustrative Examples and Basis for Conclusions, that accompanies IAS 21 but does not form part of it. These have not been included as part of the UKEB's assessment as UK-adopted international accounting standards comprise only the mandatory[1] sections of standards. Nevertheless, a review of these amendments carried out prior to the issuance of the DECA did not identify any inconsistencies with the rest of the Amendments.

Stakeholder feedback and final adoption package

6. Five formal responses were received from stakeholders, three from accounting firms, one from an accounting and audit representative organisation and one from a preparer. All have been uploaded on the UKEB website.

7. All respondents agreed with the UKEB's assessment in the DECA and support the adoption of the Amendments to IAS 21. Therefore, the Secretariat does not consider that the ECA requires substantive amendment.

[1] Mandatory pronouncements are International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), Interpretations and mandatory application guidance. Non-mandatory guidance includes the 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.

8. One respondent suggested clarifying an element of the UKEB's assessment of understandability. Additional clarification to this effect has been added to the Board's final assessment. This however does not change the initial assessment, which concluded that the amendments do support understandability. Aside from a few minor editorial changes to the text, no further changes are proposed to the ECA. A track changes version of the ECA is presented as Appendix A.

9. The Feedback statement at Appendix B includes a summary of the stakeholder feedback and the UKEB response.

10. A draft Due Process Compliance Statement (DPCS) is included as Appendix C. It sets out the process followed during this endorsement project and its compliance with the UKEB's due process. A final DPCS will be presented for noting at the June 2024 Board meeting.

11. The Secretariat has completed the work on the assessment of the Amendments. The Board is therefore asked whether it has any comments on the attached documents as follows:

    a) the final ECA (Appendix A)?

    b) the Feedback Statement (Appendix B)?

    c) the draft Due Process Compliance Statement (Appendix C)?

Decision for the Board
1. Subject to any changes identified at this meeting, does the Board approve the documents identified in paragraph 8 above?

Project closure

12. In accordance with the UKEB's Due Process Handbook paragraph 6.30, the project closure process for endorsement projects comprises the following steps:

    a) preparation of an 'adoption package' for the Amendments; and

    b) voting on the adoption of the amended standard.

Adoption package

13. In accordance with paragraph 6.31 of the Due Process Handbook, the individual documents within the adoption package for the Amendments are:

    a) the final ECA (Appendix A);

b) the Feedback Statement (Appendix B);

c) the Due Process Compliance Statement (Appendix C);

d) the Adoption Statement for the Amendments (Appendix D); and

e) the Annex to the Adoption Statement: the text of the UK-adopted international accounting standards (Appendix E).

Voting on the adoption of the Amendments

14. Decisions on the adoption of a standard or amendments are made at public Board meetings and follow the requirements of paragraphs 5.2-5.5 in Section 5 of the UKEB's Terms of Reference (ToR).

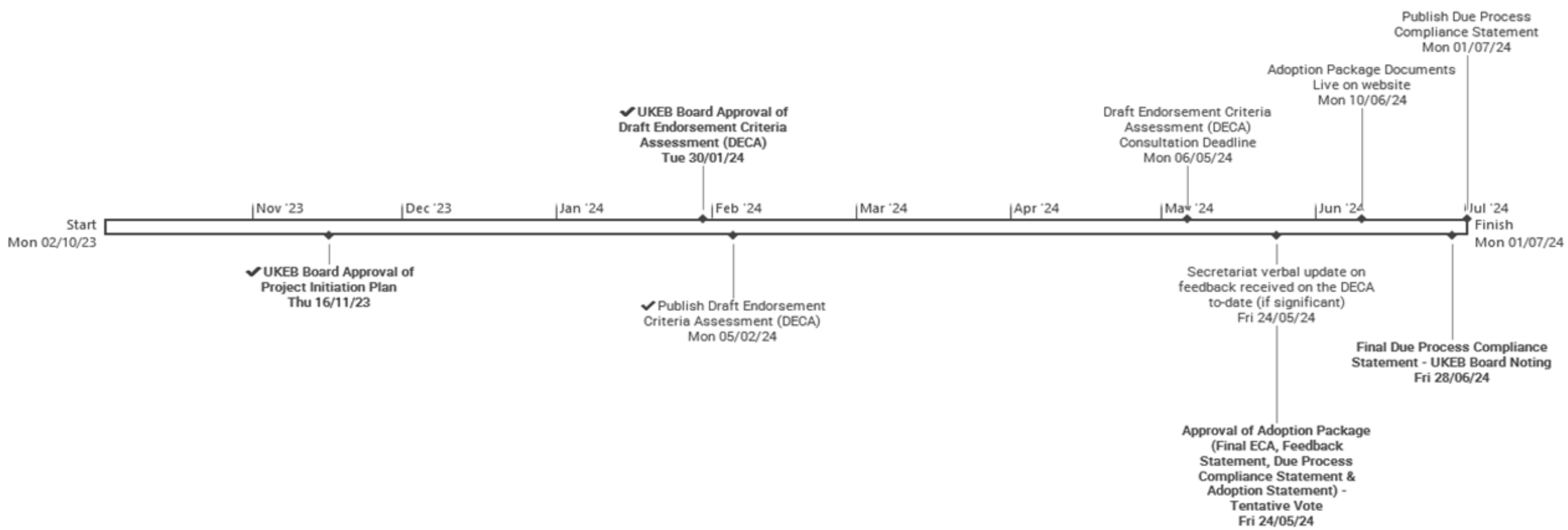
15. In line with the ToR, at this meeting, Board members are asked to provide a tentative vote on the adoption of the Amendments based on the information included in the adoption package.

16. The written forms for the formal vote will be sent to Board members after this meeting. The result of that formal vote, when completed, will be updated on the UKEB website in line with the Board's terms of reference.

Decision for the Board
2. Subject to any comments at this meeting, does the Board tentatively approve the adoption of the Amendments to IAS 21 for use in the UK?

UK Endorsement Board

Endorsement and adoption timeline (updated)



UKEB
UK Endorsement Board

~~Draft~~ Endorsement Criteria Assessment

Lack of Exchangeability—Amendments to IAS 21

~~January~~ May 2024

Contents

Introduction

Purpose

1. The purpose of this ~~Draft~~ Endorsement Criteria Assessment (~~D~~ECA) 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 ~~D~~ECA provides a brief description of the Amendments.

Scope of the adoption assessment

7. The Amendments make changes to the mandatory parts of IAS 21, consequential amendments to mandatory parts of ~~and~~ IFR~~A~~S 1 and to Application Guidance that

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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

is an integral part of IAS 21. These changes to the mandatory parts of the standard form~~s~~ part of the UKEB's adoption assessment.

8. The Amendments also include additions to the non-mandatory guidance that accompanies IAS 21 but does not form part of it. 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 ~~D~~ECA.

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 ~~D~~ECA discusses whether the Amendments lead to a significant change in accounting practice and ~~[tentatively]~~ concludes that they do not.

[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 ~~D~~ECA 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;

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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 ~~D~~ECA 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 the judgements management made in determining exchange rates used in accounting for transactions impacted by a lack of exchangeability.
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 to the estimation of the spot exchange rate, that is consistent with other requirements in relation to exchange rates elsewhere in IFRS Accounting Standards. 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 the judgements made in its accounting that will aid in their decision making. In addition, ~~Overall,~~ the Amendments do not introduce additional complexity that may undermine the understandability of the financial statements. Overall, the Amendments will produce understandable information.
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, because the proposed approach is consistent with current practice, and since the exposure related to non-exchangeable currency is expected to be immaterial, this is not expected to detract materially from comparability of the financial statements. **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 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 currently only a few currencies are 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 that the amendments are largely consistent with current practice, those entities have told us that the amendments to IAS 21 will not materially change the financial statements, and that they are supportive of the proposed amendments. Therefore, the UKEB does not expect UK companies to be impacted materially. 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 largely 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 expects 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	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)

adverse effect on UK economy	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)
~~D~~ECA	~~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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Feedback Statement

Lack of Exchangeability (Amendments to IAS 21)

Endorsement Criteria Assessment (ECA)

Date: May 2024

UKEB
UK Endorsement Board

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS Accounting Standards for use in the UK and therefore is the UK's National Standard Setter for IFRS Accounting Standards. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

Contents

Purpose of this Feedback Statement

UKEB
UK Endorsement Board

This Feedback Statement presents the views of UK stakeholders received during the UKEB's public consultation on the draft Endorsement Criteria Assessment (ECA) of *Lack of Exchangeability* Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* (the Amendments) and where relevant explains how the UKEB has addressed those views in the final ECA.

Description of the Amendments

UKEB
UK Endorsement Board

- The Amendments were issued by the IASB in August 2023 and are effective for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted.

  Amendments to IAS 21

  - The Amendments clarify the requirements in IAS 21 to assess exchangeability by defining ‘exchangeable’ and ‘not exchangeable’, the estimation objective for estimating the spot exchange rate when there is a lack of exchangeability and introduce specific disclosure requirements about how a currency, not exchangeable into another currency, affects the entity’s financial position, financial performance, and cash flows.

  Consequential amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

  - The Amendments to IAS 21 result in consequential amendments to IFRS 1 to align the requirements related to severe hyperinflation.

- The Amendments address diversity in international practice and improve the usefulness of the information provided to the investors. This will enable them to assess the materiality of a lack of exchangeability on the business and to understand the judgements management made in determining exchange rates used in accounting for transactions impacted by a lack of exchangeability.

UKEB consultation on the draft ECA

UKEB
UK Endorsement Board

Prior to publishing the draft ECA, the UKEB engaged with:

- UKEB Advisory Groups (AGs):
  - Investor Advisory Group
  - Accounting Firms and Institutes Advisory Group
  - Preparer Advisory Group
- Preparers – 12 Large FTSE 100 companies
- Two Accounting firms (Big 4 and mid-tier)
- The UK accounting regulator
- Another national standard setter (NSS)

The draft ECA was published for consultation for 90 days, between 5 February 2024 to 6 May 2024.

The UKEB promoted awareness of the draft ECA and encouraged stakeholders to respond through News Alerts, LinkedIn posts, and the UKEB website.

Five formal responses from stakeholders were received during public consultation phase. The responses were supportive of the adoption of the Amendments as proposed in the DECA.

Stakeholder feedback was reflected in the draft ECA.

Stakeholder type	Feedback prior to draft ECA	Formal responses to draft ECA
Accounting firms	-	3
Professional body	-	1
Preparers	3	1
AGs	3	-
NSS	1	-
Total	**7**	**5**

The submissions received from stakeholders were published on the UKEB website.

All stakeholder comments were considered in reaching the UKEB's final assessment of the Amendments.

Detailed assessment—Comments from respondents

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UKEB Tentative Assessment	Stakeholder views	UKEB final assessment
Technical Accounting Criteria Assessment		
The draft ECA tentatively concluded that the Amendments met the technical criteria assessment, as required by Regulation 7(1) of SI 2019/685.	All respondents agreed with the UKEB's tentative conclusion. One respondent, who did agree with the UKEB's tentative conclusion, suggested clarifying the UKEB's concluding position on understandability.	No substantive changes. An additional sentence has been added to the 'understandability section' to this effect.
True and fair view assessment		
The draft ECA tentatively concluded that the Amendments were not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.	All respondents agreed with the UKEB's tentative conclusion.	No changes.
UK long term public good		
The draft ECA tentatively concluded 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) of SI 2019/685.	All respondents agreed with the UKEB's tentative conclusion.	No changes.

Disclaimer

UKEB
UK Endorsement Board

This Feedback Statement has been produced in order to set out the UKEB's response to stakeholder comments received on the UKEB's draft Endorsement Criteria Assessment on *Lack of Exchangeability* (Amendments to IAS 21) and should not be relied upon for any other purpose.

The views expressed in this Feedback Statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this Feedback Statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

UK Endorsement Board

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Appendix C: DRAFT Due Process Compliance Statement: *Lack of Exchangeability* (Amendments to IAS 21)

Title of the Amendment	Issue dates
Lack of Exchangeability (Amendments to IAS 21)	• Exposure Draft ED/2021/4 issued: 20 April 2021. • Final amendments issued: 15 August 2023. • Effective for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted.

Project preparation

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Added to the UKEB technical work plan [Due Process Handbook (Handbook) [4.30]	Mandatory	Project is included in the UKEB published technical work plan.	**Complete:** The Amendments were included in the UKEB technical work plan published in September 2023.
Project Initiation Plan (PIP) [Handbook 6.12 to 6.16, A1 to	Mandatory	PIP draft with project outline (background, scope, project objective) and approach for	**Complete:** The Secretariat included mandatory milestones for the project and considered, as appropriate, other milestones and activities. The PIP was approved at the 16 November 2023 Board meeting.

[1] In accordance with the Due Process Handbook.

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
A2 and A12 to A14]		endorsement (key milestones and timing)	
Project Initiation Plan (PIP) [Handbook 6.12 to 6.16, A1 to A2 and A12 to A14]	Mandatory	Outreach plan for stakeholders and communication approach outlined	**Complete:** Due to the narrow-scope of the Amendments, consultation activities were focused on obtaining responses to the Draft Endorsement Criteria Assessment (DECA) as well as consulting with UKEB advisory groups and limited targeted outreach with relevant UK stakeholders, including some who had previously provided feedback to the IASB and/or UKEB**.** The PIP (referred to above) included the outreach plan and approach.
	Mandatory	Resources allocated	**Complete:** One Project Manager supported and overseen by one Project Director, with communications and economics team support.
	Mandatory	Assessment of whether to set up an ad-hoc advisory group	**Complete:** Assessed. Taking a proportionate approach, an ad-hoc advisory group was not considered necessary due to the narrow-scope nature of the Amendments.

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
	Mandatory	Assessment of whether PIP required updating	**Complete:** Assessed The Secretariat monitored this throughout the project, the nature and scope of which remained as proposed in the original PIP. Based on the discussion in January, and at the suggestion of the Board, the Secretariat has brought forward the timeline for endorsement (originally planned for June 2024 in the PIP) by a month. This does not represent a major change to the nature and scope of a project and therefore the PIP was not updated to reflect this. However, the project timeline in the cover paper for the ECA was updated.
	Mandatory	UKEB Board public meeting held to approve PIP	**Complete:** The PIP was approved at the 16 November 2023 Board meeting.
Education sessions [Handbook 4.10]	Optional	Board provided with Education sessions or updates on the IASB project	**Complete:** None was provided as the amendments were not expected to be complex.

Desk-based research

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Desk-based research [Handbook 6.17 and A3]	Optional	Review of relevant documentation	**Complete:** The Secretariat has reviewed: • The IASB's work on the Amendments mainly the IASB's staff papers, Exposure Draft (ED) including its Basis for Conclusions, and final amendments; • Comment letters on the ED received by the IASB from UK stakeholders including the UKEB; • Previous work done by the UKEB as part of its influencing activities; • Regulatory opinion/CRR feedback • Other standard-setter views; and, • Accounting manuals and press releases for guidance and illustrative examples.

Outreach

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Consult with a representative range of stakeholders prior to adoption [Handbook 6.18 to 6.21 and A4 to A8]	Mandatory	Evidence of consultation	Due to the narrow-scope nature of the Amendments, consultation activities were focused on obtaining responses to the Draft Endorsement Criteria Assessment (DECA), consultation with UKEB advisory groups, and limited targeted outreach with relevant UK stakeholders. A summary of outreach activities is provided in the Feedback Statement. The UKEB received five comment letters in response to its Invitation to Comment. The comment letters received were published on the UKEB website.

Draft Endorsement Criteria Assessment (DECA)

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
DECA [6.23 to 6.29]	Mandatory	The UKEB sets comment period for responses to DECA	Complete: The DECA was published for consultation for 90 days on 5 February 2024 (comment period deadline: 6 May 2024)

	Mandatory	Review and approval at a UKEB public meeting	**Complete:** The DECA was reviewed and approved at the Board meeting on 30 January 2024.
	Mandatory	DECA published on website for public consultation	**Complete:** The Secretariat published the approved DECA on the UKEB website for a 90 day consultation period from 5 February 2024 to 6 May 2024.
	Mandatory	Public responses to DECA assessed and published on website	**Complete:** The UKEB received five comment letters which were published on the UKEB website. All responses were assessed, reflected as appropriate in the final ECA and summarised in the Feedback Statement.

Project finalisation and project closure

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Final Endorsement Criteria Assessment (ECA) [Handbook 6.32 and 6.40 to 6.48]	Mandatory	Final ECA approved by the UKEB in public meeting	**[Complete:** A draft of the final ECA was presented for approval to the Board at its 24 May 2024 public meeting. [The Board approved the final ECA, subject to suggested amendments.]
	Mandatory	Final ECA published on the website	**[Complete:** The final ECA was published on the UKEB website on XX Month YYYY.]

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Feedback Statement [Handbook 6.33 to 6.36]	Mandatory	Feedback Statement approved by the UKEB in a public meeting	**[Complete:** A draft of the Feedback Statement was presented for approval to the Board at its 24 May 2024 public meeting. [The Board approved the draft final Feedback Statement, subject to editorial changes.]
	Mandatory	Feedback Statement published on the website	**[Complete:** The final Feedback Statement was published on the UKEB website on XX Month YYYY.]
Adoption Statement [Handbook 6.40 to 6.48]	Mandatory	Adoption Statement approved by the UKEB in public meeting	**[Complete**: The Adoption Statement for the Amendments was approved by the Board at its 24 May 2024 public meeting.]
	Mandatory	Adoption Statement published on the website	**[Complete:** The final Adoption Statement for the Amendments was published on XX Month YYYY.]

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Voting on adoption of the Amendments [Handbook 6.42 to 6.48]	Mandatory	Tentative vote	**[Complete:** Tentative vote took place at the 24 May 2024 Board meeting based on the discussion of the Adoption Package, which included the final draft ECA, the Feedback Statement, the DPCS, the draft Adoption Statement for the Amendments and the text of the UK-adopted international accounting standard *Lack of Exchangeability*. The vote was indicative only.]
	Mandatory	Evidence of written vote (in paper or electronic form)	**[Complete:** The Adoption Statement and voting forms were sent to the Board for voting (accompanied by the text of the Amendments to be adopted) on XX [Month YYYY] (written forms due by XX [Month YYYY]). The vote was formalised by Board members signing the formal voting forms for the Amendments.]
	Mandatory	Outcome of the vote within 3 working days of the formal vote published on website	**[Complete:** The announcement of the adoption of the Amendments was published on the UKEB website on XX [Month YYYY].]
Due Process Compliance Statement (DPCS) [Handbook 6.37 to 6.39]	Mandatory	DPCS approved by the UKEB in public meeting	**[Complete:** A [draft] DPCS was presented for approval to the Board at its 24 May 2024 public meeting. A final DPCS was presented for noting at the Board's [28 June 2024] meeting.]
	Mandatory	DPCS published on the website	**[Complete:** The final DPCS was published on the UKEB website after the XX June 2024 Board meeting.]

UKEB UK Endorsement Board

Ongoing communications

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Public Board meetings [Handbook 4.10]	Mandatory	UKEB public meetings held to discuss technical project	**Complete:** The Board approved the Project Initiation Plan (PIP) at its meeting on 16 November 2023. The Board approved the DECA at its meeting on 30 January 2024. [The Board approved the Adoption Package, consisting of the final Endorsement Criteria Assessment (ECA), the Feedback Statement, the [draft] Due Process Compliance Statement and the [draft] Adoption Statement for the Amendments, at its meeting on 24 May 2024.]
Secretariat papers [Handbook 4.20]	Mandatory	Board meeting papers posted and publicly available usually no later than 5 working days before a Board meeting.	**Complete:** The UKEB's meeting papers were published on the UKEB website 5 working days before the public meetings. Meeting minutes and recordings were made publicly available via the UKEB website.
Project webpage [Handbook 4.25(b)]	Mandatory	Project webpage contains a project description with up-to-date information on the project.	**Complete:** The project webpage has been updated regularly on a timely basis.

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Subscriber Alerts [Handbook 4.24]	Optional	Evidence that subscriber alerts have occurred	**Complete:** Subscribers were alerted via email 5 days before each Board meeting, with links to the agenda, papers and the option to dial in to observe the discussion.
News Alerts [Handbook 4.24]	Optional	News Alert to announce publication of key documents	**Complete:** A News Alert was published on 5 January 2024 calling for comments on the DECA. [A News Alert announcing publication of the final ECA and the Feedback Statement was published on DD [Month YYYY].]

Conclusion
This project complies with the applicable due process steps, as set out in the December 2022 Handbook.

UKEB UK Endorsement Board

Adoption Statement

Lack of Exchangeability (Amendments to IAS 21)

1. The UK Endorsement Board is designated under regulation 2(1) of The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609[1] ("the Delegating Regulations") for the purpose of enabling it to exercise functions of the Secretary of State under Chapter 3 of Part 2 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685[2] ("the Regulations").

2. The UK Endorsement Board, in exercise of the powers conferred by regulation 6(1) of the Regulations, adopts the following amendments to international accounting standards published on 15 August 2023 by the International Accounting Standards Board (IASB), for use within the United Kingdom:

   a) *Lack of Exchangeability* (Amendments to IAS 21)

3. In accordance with regulation 7(1) of the Regulations, the UK Endorsement Board is of the view that:

   a) the standard[3] 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 relevance, reliability, understandability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

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1 Accessible here: https://www.legislation.gov.uk/uksi/2021/609/contents/made
2 Accessible here: https://www.legislation.gov.uk/uksi/2019/685/contents
3 The term "standard" includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), amendments to those standards and related Interpretations (SIC-IFRIC interpretations) issued or adopted by the International Accounting Standards Board (IASB). This Adoption Statement relates to amendments to those standards.

4. In accordance with regulation 8 of the Regulations, the UK Endorsement Board is of the view that adequate consultation with persons representative of those with an interest in the quality and availability of accounts, including users and preparers of accounts, has been undertaken before the adoption decision.

5. The adopted amendments to international accounting standards in paragraph 2:

   a) must be used for financial years beginning on or after 1 January 2025.

   b) may be used for financial years beginning before 1 January 2025.

6. The text of the adopted amendments to international accounting standards is set out in the annex to this statement.

UK Endorsement Board

Approval by the UKEB Board

Adoption of *Lack of Exchangeability* (Amendments to IAS 21)

Lack of Exchangeability (Amendments to IAS 21) published by the IASB in August 2023 was approved for adoption by 14 members of the UK Endorsement Board.

Pauline Wallace	Chair
Amir Amel-Zadeh	
Michael Ashley	
Philip Aspin	
Anthony Clifford	
Owen Glaysher	
Katherine Coates	
Robin Cohen	
Edward Knapp	
Paul Lee	
Giles Mullins	
Liz Murrall	
Sandra Thompson	
Michael Wells	

[Date]

UK-Adopted International Accounting Standards

Amendments to IAS 21

Lack of Exchangeability

Terms of Use for Users

1. The IFRS Foundation and the UK Endorsement Board ("UKEB") (pursuant to the delegation by the Secretary of State in the International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609), grant users of the UK-adopted international accounting standards' (Users) the permission to reproduce the 'UK-adopted international accounting standards' for

   i. the User's Professional Use, or

   ii. private study and education

   Professional Use: means use of 'UK-adopted international accounting standards' in the User's professional capacity in connection with the business of providing accounting services for the purpose of application of IFRS as adopted by the UK for preparation of financial statements and/or financial statement analysis to the User's clients or to the business in which the User is engaged as an accountant.

   For the avoidance of doubt, the abovementioned usage does not include any kind of activities that make (commercial) use of the 'UK-adopted international accounting standards' other than direct or indirect application of the 'UK-adopted international accounting standards' such as but not limited to commercial seminars, conferences, commercial training or similar events.

2. For any application that falls outside Professional Use, Users shall be obliged to contact the UKEB and the IFRS Foundation for a separate individual licence under terms and conditions to be mutually agreed.

Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Paragraphs 8 and 26 are amended. Paragraphs 8A–8B, 19A and their related headings, paragraphs 57A–57B, 60L–60M and Appendix A are added. New text is underlined and deleted text is struck through. For ease of reading, text in Appendix A has not been underlined.

Definitions

8 **The following terms are used in this Standard with the meanings specified:**

...

<u>**A currency is *exchangeable* into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.**</u>

...

Elaboration on the definitions

<u>**Exchangeable (paragraphs A2–A10)**</u>

<u>8A</u> <u>An entity assesses whether a currency is exchangeable into another currency:</u>

<u>(a)</u> <u>at a measurement date; and</u>

<u>(b)</u> <u>for a specified purpose.</u>

<u>8B</u> <u>If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.</u>

...

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

<u>19A</u> <u>An entity shall estimate the spot exchange rate at a measurement date when a currency is not exchangeable into another currency (as described in paragraphs 8, 8A–8B and A2–A10) at that date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly</u>

exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

Reporting foreign currency transactions in the functional currency

...

Reporting at the ends of subsequent reporting periods

...

26 When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. ~~If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.~~

...

Disclosure

...

57A When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency (see paragraph 19A), the entity shall disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency 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 currency not being exchangeable into the other currency;

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

(c) the estimation process; and

(d) the risks to which the entity is exposed because of the currency not being exchangeable into the other currency.

57B Paragraphs A18–A20 specify how an entity applies paragraph 57A.

Effective date and transition

...

60L *Lack of Exchangeability*, issued in August 2023, amended paragraphs 8 and 26, and added paragraphs 8A–8B, 19A, 57A–57B and Appendix A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact. 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, at the date of initial application, concludes that its functional currency is not exchangeable into the foreign currency or, if applicable, concludes that the foreign currency is not exchangeable into its functional currency, the entity shall, at the date of initial application:

(i) translate affected foreign currency monetary items, and non-monetary items measured at fair value in a foreign currency, 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.

(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, at the date of initial application, concludes that its functional currency (or the foreign operation's functional currency) is not exchangeable into its presentation currency or, if applicable, concludes that its presentation currency is not exchangeable into its functional currency (or the foreign operation's functional currency), the entity shall, at the date of initial application:

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

(ii) translate affected equity items 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.

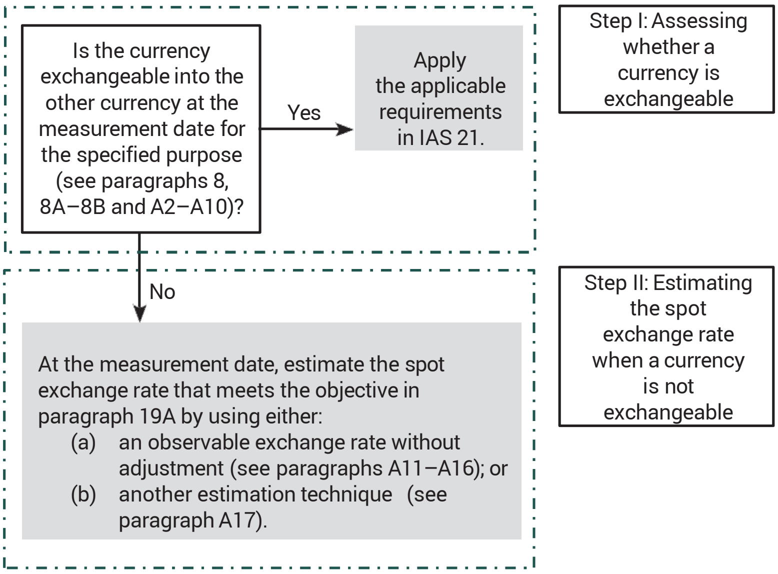
...

Appendix A
Application guidance

This appendix is an integral part of the Standard.

Exchangeability

A1 The purpose of the following diagram is to help entities assess whether a currency is exchangeable and estimate the spot exchange rate when a currency is not exchangeable.



Step I: Assessing whether a currency is exchangeable (paragraphs 8 and 8A–8B)

A2 Paragraphs A3–A10 set out application guidance to help an entity assess whether a currency is exchangeable into another currency. An entity might determine that a currency is not exchangeable into another currency, even though that other currency might be exchangeable in the other direction. For example, an entity might determine that currency PC is not exchangeable into currency LC, even though currency LC is exchangeable into currency PC.

Time frame

A3 Paragraph 8 defines a spot exchange rate as the exchange rate for immediate delivery. However, an exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public holidays. A normal administrative delay in obtaining the other currency does not preclude a currency from being exchangeable into that other currency. What constitutes a normal administrative delay depends on facts and circumstances.

Ability to obtain the other currency

A4 In assessing whether a currency is exchangeable into another currency, an entity shall consider its ability to obtain the other currency, rather than its intention or decision to do so. Subject to the other requirements in paragraphs A2–A10, a currency is exchangeable into another currency if an entity is able to obtain the other currency—either directly or indirectly—even if it intends or decides not to do so. For example, subject to the other requirements in paragraphs A2–A10, regardless of whether the entity intends or decides to obtain PC, currency LC is exchangeable into currency PC if an entity is able to either exchange LC for PC, or exchange LC for another currency (FC) and then exchange FC for PC.

Markets or exchange mechanisms

A5 In assessing whether a currency is exchangeable into another currency, an entity 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. Enforceability is a matter of law. Whether an exchange transaction in a market or exchange mechanism would create enforceable rights and obligations depends on facts and circumstances.

Purpose of obtaining the other currency

A6 Different exchange rates might be available for different uses of a currency. For example, a jurisdiction facing pressure on its balance of payments might wish to deter capital remittances (such as dividend payments) to other jurisdictions but encourage imports of specific goods from those jurisdictions. In such circumstances, the relevant authorities might:

(a) set a preferential exchange rate for imports of those goods and a 'penalty' exchange rate for capital remittances to other jurisdictions, thus resulting in different exchange rates applying to different exchange transactions; or

(b) make the other currency available only to pay for imports of those goods and not for capital remittances to other jurisdictions.

A7 Accordingly, whether a currency is exchangeable into another currency could depend on the purpose for which the entity obtains (or hypothetically might need to obtain) the other currency. In assessing exchangeability:

(a) when an entity reports foreign currency transactions in its functional currency (see paragraphs 20–37), the entity shall assume its purpose in obtaining the other currency is to realise or settle individual foreign currency transactions, assets or liabilities.

(b) when an entity uses a presentation currency other than its functional currency (see paragraphs 38–43), the entity shall assume its purpose in obtaining the other currency is to realise or settle its net assets or net liabilities.

(c) when an entity translates the results and financial position of a foreign operation into the presentation currency (see paragraphs 44–47), the entity shall assume its purpose in obtaining the other currency is to realise or settle its net investment in the foreign operation.

A8 An entity's net assets or net investment in a foreign operation might be realised by, for example:

(a) the distribution of a financial return to the entity's owners;

(b) the receipt of a financial return from the entity's foreign operation; or

(c) the recovery of the investment by the entity or the entity's owners, such as through disposal of the investment.

A9 An entity shall assess whether a currency is exchangeable into another currency separately for each purpose specified in paragraph A7. For example, an entity shall assess exchangeability for the purpose of reporting foreign currency transactions in its functional currency (see paragraph A7(a)) separately from exchangeability for the purpose of translating the results and financial position of a foreign operation (see paragraph A7(c)).

Ability to obtain only limited amounts of the other currency

A10 A currency is not exchangeable into another currency if, for a purpose specified in paragraph A7, an entity is able to obtain no more than an insignificant amount of the other currency. An entity shall assess the significance of the amount of the other currency it is able to obtain for a specified purpose by comparing that amount with the total amount of the other currency required for that purpose. For example, an entity with a functional currency of LC has liabilities denominated in currency FC. The entity assesses whether the total amount of FC it can obtain for the purpose of settling those liabilities is no more than an insignificant amount compared with the aggregated amount (the sum) of its liability balances denominated in FC.

Step II: Estimating the spot exchange rate when a currency is not exchangeable (paragraph 19A)

A11 This Standard does not specify how an entity estimates the spot exchange rate to meet the objective in paragraph 19A. An entity can use an observable exchange rate without adjustment (see paragraphs A12–A16) or another estimation technique (see paragraph A17).

Using an observable exchange rate without adjustment

A12 In estimating the spot exchange rate as required by paragraph 19A, an entity may use an observable exchange rate without adjustment if that observable exchange rate meets the objective in paragraph 19A. Examples of an observable exchange rate include:

(a) a spot exchange rate for a purpose other than that for which an entity assesses exchangeability (see paragraphs A13–A14); and

(b) the first exchange rate at which an entity is able to obtain the other currency for the specified purpose after exchangeability of the currency is restored (first subsequent exchange rate) (see paragraphs A15–A16).

Using an observable exchange rate for another purpose

A13 A currency that is not exchangeable into another currency for one purpose might be exchangeable into that currency for another purpose. For example, an entity might be able to obtain a currency to import specific goods but not to pay dividends. In such situations, the entity might conclude that an observable exchange rate for another purpose meets the objective in paragraph 19A. If the rate meets the objective in paragraph 19A, an entity may use that rate as the estimated spot exchange rate.

A14 In assessing whether such an observable exchange rate meets the objective in paragraph 19A, an entity shall consider, among other factors:

(a) *whether several observable exchange rates exist*—the existence of more than one observable exchange rate might indicate that exchange rates are set to encourage, or deter, entities from obtaining the other currency for particular purposes. These observable exchange rates might include an ‘incentive’ or ‘penalty’ and therefore might not reflect the prevailing economic conditions.

(b) *the purpose for which the currency is exchangeable*—if an entity is able to obtain the other currency only for limited purposes (such as to import emergency supplies), the observable exchange rate might not reflect the prevailing economic conditions.

(c) *the nature of the exchange rate*—a free-floating observable exchange rate is more likely to reflect the prevailing economic conditions than an exchange rate set through regular interventions by the relevant authorities.

(d) *the frequency with which exchange rates are updated*—an observable exchange rate unchanged over time is less likely to reflect the prevailing economic conditions than an observable exchange rate that is updated on a daily basis (or even more frequently).

Using the first subsequent exchange rate

A15 A currency that is not exchangeable into another currency at the measurement date for a specified purpose might subsequently become exchangeable into that currency for that purpose. In such situations, an entity might conclude that the first subsequent exchange rate meets the objective in paragraph 19A. If the rate meets the objective in paragraph 19A, an entity may use that rate as the estimated spot exchange rate.

A16 In assessing whether the first subsequent exchange rate meets the objective in paragraph 19A, an entity shall consider, among other factors:

(a) *the time between the measurement date and the date at which exchangeability is restored*—the shorter this period, the more likely the first subsequent exchange rate will reflect the prevailing economic conditions.

(b) *inflation rates*—when an economy is subject to high inflation, including when an economy is hyperinflationary (as specified in IAS 29 *Financial Reporting in Hyperinflationary Economies*), prices often change quickly, perhaps several times a day. Accordingly, the first subsequent exchange rate for a currency of such an economy might not reflect the prevailing economic conditions.

Using another estimation technique

A17 An entity using another estimation technique may use any observable exchange rate—including rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations—and adjust that rate, as necessary, to meet the objective in paragraph 19A.

Disclosure when a currency is not exchangeable

A18 An entity shall consider how much detail is necessary to satisfy the disclosure objective in paragraph 57A. An entity shall disclose the information specified in paragraphs A19–A20 and any additional information necessary to meet the disclosure objective in paragraph 57A.

A19 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 without adjustment (see paragraphs A12–A16); or

(ii) spot exchange rates estimated using another estimation technique (see paragraph A17);

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

(f) qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

A20 When a foreign operation's functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation's functional 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.

A heading is amended. New text is underlined.

Appendix <u>B</u>
Amendments to other pronouncements

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs 31C and D27 are amended and paragraph 39AI is added. New text is underlined and deleted text is struck through.

Presentation and disclosure

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Explanation of transition to IFRSs

...

Use of deemed cost after severe hyperinflation

31C If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening IFRS statement of financial position because of severe hyperinflation (see paragraphs D26–D30), the entity's first IFRS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that <u>is subject to severe hyperinflation.</u> ~~has both of the following characteristics:~~

~~(a) a reliable general price index is not available to all entities with transactions and balances in the currency.~~

~~(b) exchangeability between the currency and a relatively stable foreign currency does not exist.~~

...

Effective date

...

<u>39AI *Lack of Exchangeability* (Amendments to IAS 21), issued in August 2023, amended paragraphs 31C and D27. An entity shall apply those amendments when it applies IAS 21 (as amended in August 2023).</u>

...

Appendix D
Exemptions from other IFRSs

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Severe hyperinflation

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D27 The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

(a) a reliable general price index is not available to all entities with transactions and balances in the currency.

(b) ~~exchangeability between~~ the currency is not exchangeable into ~~and~~ a relatively stable foreign currency ~~does not exist~~. Exchangeability is assessed in accordance with IAS 21.