UKEB UK Endorsement Board

Dr Andreas Barckow
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Dear Dr Barckow

Invitation to Comment: Exposure Draft ED/2021/4 *Lack of Exchangeability (Proposed amendments to IAS 21)*

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations. This letter is intended to contribute to the International Accounting Standards Board's (IASB) due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment of new or amended International Accounting Standards undertaken by the UKEB.

We welcome the opportunity to contribute to the debate on accounting for a lack of exchangeability. Though we expect few UK companies to be impacted, we believe the clarifications will be helpful. We support the proposals in the IASB's Exposure Draft (ED), as they provide guidance on an area not covered by the existing Standard. As such, they should reduce any diversity of practice, leading to consistency and comparability of financial statements. For detailed responses to the questions in the ED please see Appendix 1. We have also included in Appendix 2 some suggested minor changes to the wording of the amendments which we believe add clarity for the IASB to consider, however our support is not contingent on these suggestions being implemented.

Yours sincerely

Pauline Wallace
Chair
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Appendix 1	Questions on Exposure Draft ED/2021/4 *Lack of Exchangeability* (Proposed amendments to IAS 21)
Appendix 2	Minor drafting suggestions

Appendix 1: Questions on Exposure Draft ED/2021/4 *Lack of Exchangeability* (Proposed amendments to IAS 21)

Question 1: Assessing exchangeability between two currencies.
Paragraph 8 of the draft amendments to IAS 21 specifies that a currency is exchangeable into another currency when an entity is able to exchange that currency for the other currency. Paragraphs A2–A11 of [draft] Appendix A to IAS 21 set out factors an entity considers in assessing exchangeability and specify how those factors affect the assessment. Paragraphs BC4–BC16 of the Basis for Conclusions explain the Board's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

A1 We agree the proposed amendments provide preparers with guidance regarding the definition and assessment of a lack of exchangeability that is not temporary. Currently, IAS 21 does not provide such guidance, and the amendments would add clarity to IFRS Standards. This will have the benefit of reducing any potential diversity in practice in this area leading to increased consistency and comparability of financial statements.

A2 We agree that the additional paragraphs A2 – A11 are helpful in understanding how to apply Paragraph 8 when determining whether a currency is exchangeable.

Question 2: Determining the spot exchange rate when exchangeability is lacking
Paragraphs 19A–19C and paragraphs A12–A15 of the draft amendments to IAS 21 specify how an entity determines the spot exchange rate when a currency is not exchangeable into another currency. Paragraphs BC17–BC20 of the Basis for Conclusions explain the Board's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

A3 We agree with the proposed approach to determining the spot exchange rate when exchangeability is lacking.

A4 We support the conclusion to propose conditions to be met when estimating a spot exchange rate, rather than specifying detailed requirements on how the estimation should be made. This is consistent with similar requirements in other standards, and allows for a proportionate approach that accounts for entity and jurisdiction specific circumstances.

Question 3: Disclosure
Paragraphs 57A–57B and A16–A18 of the draft amendments to IAS 21 require an entity to disclose information that would enable users of its financial statements to understand how a lack of exchangeability between two currencies affects, or is expected to affect, its financial performance, financial position and cash flows. Paragraphs BC21–BC23 of the Basis for Conclusions explain the Board's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

A5 We agree with the disclosure objective and the disclosure requirements proposed in the ED. We believe these disclosure requirements will provide relevant information to users of financial statements, assisting them to understand the effects of estimating the spot exchange rate on the financial statements and the entity's exposure to a currency that lacks exchangeability.

Question 4: Transition
Paragraphs 60L–60M of the draft amendments to IAS 21 require an entity to apply the amendments from the date of initial application, and permit earlier application. Paragraphs BC24–BC27 of the Basis for Conclusions explain the Board's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

A6 We agree with the transition requirements proposed. Retrospective application could be difficult and would require the use of hindsight. The approach outlined appears to provide an appropriate level of transparency for users without significant additional burden for preparers.

A7 We agree that the amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* are appropriate for the impacts of these narrow scope amendments.

Appendix 2: Minor drafting suggestions

A8 We suggest the IASB redrafts paragraph 19C as set out below since paragraphs A12 – A15 appear limited to providing guidance on using an observable or subsequent exchange rate as discussed in paragraph 19B. The current wording may lead a reader to expect more comprehensive guidance, specifying how an entity determines the spot exchange rate when no such rate exists.

> 19C The requirements in paragraphs A12–A15 specify ~~how an entity applies paragraphs~~ factors to consider when applying paragraphs 19A–19B ~~in determining the spot exchange rate when a currency is not exchangeable into another currency~~ when using an observable exchange rate, or the first subsequent exchange rate, to estimate the spot exchange rate.

A9 We suggest the IASB considers adding the following paragraph to Illustrative Example 4 to help emphasise the objectives of estimating a spot exchange rate when exchangeability is lacking.

> IE13 Alternatively, if Entity X had determined that an appropriate observable or subsequent exchange rate did not exist, or it chose not to use one, it should use an estimation technique to determine a spot rate that meets the conditions specified in paragraph 19A.