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31 August 2021

Dear Sir

**Exposure Draft ED/2021/4: Lack of Exchangeability**

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network<sup>1</sup>, this letter summarises views of member firms that provided comments on the ED.

We support the efforts of the IASB to introduce requirements in IFRS applicable to instances with a lack of exchangeability exists between currencies. While this is not common in most jurisdictions, it has a pervasive impact in affected jurisdictions, which increases the need for consistent requirements to be applied to improve comparability.

In addition to our comments supporting the proposals, we have a number of suggestions to improve and clarify the Board's preliminary views.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at [abuchanan@bdoifra.com](mailto:abuchanan@bdoifra.com).

Yours faithfully

Andrew Buchanan

*Global Head of IFRS and Corporate Reporting*

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## Appendix

### Question 1

*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.*

We agree with the Board's proposals. We believe the proposals provide adequate guidance for an entity to determine whether a currency is exchangeable into another currency.

### Question 2

*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.*

We agree with the Board's proposals. Estimating the spot exchange rate when the exchangeability between two currencies is lacking will require significant judgement and the use of estimation techniques. We believe the requirements set out in the proposals will be useful to entities in determining how they ought to be applied to specific facts and circumstances.

However, we believe that additional illustrative examples would assist preparers in applying the requirements in the proposals. We believe such precedent exists in other principles-based requirements in IFRS. For example, IFRS 13 *Fair Value Measurement* sets out requirements to be applied by entities in measuring items recognised or disclosed in financial statements at fair value. These requirements are primarily based on principles because the techniques and inputs used in determining fair value for different items may vary significantly. Despite this fact, IFRS 13 contains 19 examples of how the requirements of IFRS 13 may be applied to certain fact patterns. We believe that numerical examples that illustrate how the requirements of paragraph 19B of the proposal might be applied would be useful in increasing the consistency of application of the proposed requirements.

Such examples might illustrate how foreign markets, inflation and other mechanisms by which foreign currency may be obtained may influence the estimation of the spot exchange rate.

### Question 3

*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.*

We agree with the Board's proposals. If a spot exchange rate is estimated, it is crucial for users of financial statements to be able to evaluate the effect of the estimations made. We believe the disclosure requirements set out in the proposal would enable users of financial statements to understand the effect of the estimates made by management and also to compare the estimates made by one company to another.

A long-term lack of exchangeability is rare, however, when jurisdictions are affected by this, it is typically pervasive in a jurisdiction, therefore, this ability to compare one entity to another will be useful to users of financial statements.

### Question 4

*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.*

We agree with the Board's proposals. We agree that requiring retrospective application of the requirements would result in the use of hindsight by preparers. We also agree that restating comparative periods has limited value if an entity is experiencing a long-term lack of exchangeability because such conditions are often experienced in conjunction with hyperinflation, which makes comparisons of current period results to prior periods less meaningful.