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## EFRAG's Final Endorsement Advice on the Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability*

### Cover Note

#### Endorsement advice

- 1 The objectives of the session are to:
  - (a) consider the comments received in response to EFRAG's Invitation to Comment on its final endorsement advice on the amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability* (the Amendments) – later referred to as "the FEA"; and
  - (b) discuss and agree to recommend to the EFRAG FRB a final endorsement advice.

#### Background of the IASB project

- 2 IAS 21 generally requires the use of a spot exchange rate when an entity reports foreign currency transactions or a foreign operation's results and financial position in its financial statements. A spot exchange rate is the exchange rate for immediate delivery. IAS 21 specifies the exchange rate to use in reporting foreign currency transactions when exchangeability between two currencies is temporarily lacking. However, IAS 21 does not specify what an entity is required to do when this situation is not temporary.
- 3 The IASB was informed of diverse views on how to determine whether a currency is exchangeable into another currency and the exchange rate to use when it is not. In situations when economic conditions deteriorate rapidly, the diverse views on the application of IAS 21 could lead to material differences in the financial statements of entities affected by a currency that is not exchangeable to a relevant currency.
- 4 Furthermore, for hyperinflationary economies which may also be accompanied by the currency not being exchangeable, IAS 29 *Financial Reporting in Hyperinflationary Economies* requires the reporting entity to firstly restate non-monetary assets and liabilities of the foreign subsidiary to reflect inflation by applying a general price index before retranslating subsidiary's financial statement into reporting currency.
- 5 On 20 April 2021, in order to respond to the issues related with exchangeability of a currency, the IASB proposed to amend IAS 21 and to specify:
  - (a) when a currency is exchangeable into another currency and, consequently, when it is not;

- (b) how an entity determines the exchange rate to apply when a currency is not exchangeable; and
  - (c) the disclosures an entity provides when a currency is not exchangeable.
- 6 On 15 August 2023, following a comment period, the IASB issued the Amendments. The Amendments are available on the IASB website. For a short time and for the purpose of the endorsement process, the Amendments are also provided on EFRAG’s website [here](#).

#### **Background of the EFRAG discussions**

- 7 On 14 September 2021, EFRAG issued its comment letter where, in principle, EFRAG agreed with the IASB’s proposals to amend IAS 21 to address the issue of insufficient guidance applicable to the situations where a currency is not exchangeable into another currency. EFRAG considered that the proposals would lead to a reduction of divergency in practice and an increase in transparency about what method is applied.
- 8 EFRAG raised several requests to clarify the proposals in order to better align the proposals with the existing guidance.

#### **EFRAG’s initial assessment on the Amendments**

- 9 EFRAG’s initial assessment was that the Amendments satisfy the criteria for endorsement for use in the EEA and that endorsing the Amendments is conducive to the European public good.

#### **Comment letters received**

- 10 EFRAG published its [draft endorsement advice](#) on [28 September 2023](#), for a 70-day comment period that ended on 7 December 2023. EFRAG received two comments letters, from Allianz and GDV (the German Insurance Association), both of which are available on [the EFRAG website](#).

#### **Summary of comments received on the Draft Endorsement Advice**

- 11 Both comment letters agreed with all of EFRAG’s initial assessments.

#### **EFRAG Secretariat proposed responses/recommendation**

- 12 Considering EFRAG’s initial assessment and the input received from constituents, the EFRAG Secretariat recommends their endorsement.

#### **Questions for EFRAG FR TEG**

- 13 Do you have any observation on the Amendments, and comments or drafting suggestions on EFRAG’s FEA on the Amendments?
- 14 Do you recommend the FEA for the FRB to approve?

#### **Next steps**

- 15 EFRAG will seek EFRAG FRB approval of the FEA by written procedure in early January 2024.
- 16 Subject to the EFRAG FRB approval, EFRAG will provide its endorsement advice to the European Commission.

#### **Agenda Papers**

- 17 In addition to this cover note, agenda papers for this session are:

*Final Endorsement Advice on the Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability – Cover Note*

- (a) Agenda paper 04-02 – [Exchangeability FEA - Draft Letter to the EC - EFRAG FR TEG 23-12-20]; and
- (b) Agenda paper 04-03 - [Exchangeability FEA - Draft Letter to the EC – TC version EFRAG FR TEG 23-12-20].