Detailed analysis on amendments proposed in IFRS 21for accounting on Lack of Exchangeability

The International Accounting Standard Board (IASB) has issued an exposure draft proposing certain amendments to Ind AS 21 *The Effects of Changes in Foreign Exchange Rates.* This standard requires the entities to use the spot exchange rate for translating the foreign currency transaction into presentation currency. But, the standard is silent on how to translate a foreign currency transaction in case the exchange rate between the two currencies is not available. Though the circumstances where an exchange rate is lacking might arise infrequently, but it could lead to material differences in the financial statements of an entity and can lead to strategic changes. Accordingly, to provide an appropriate guide on how to account the above transactions in the books of accounts, the board has issued a draft proposing certain amendments in terms of:-

1. How to determine the exchange rate when a currency is not exchangeable?

2. Specifying when a currency is exchangeable into another currency and, when not.

3. What disclosures should be accompanied with financial statements in respect of above transactions?

How to determine the spot rate when exchange rate is not available?

1. **Use of Estimated Spot Exchange Rate** - As per the proposed provisions, an entity shall use the estimated spot exchange rate at measurement date meeting few conditions like (i) a rate that would have been applied to an orderly transaction between market participants, (ii) a rate that an entity would have been able to enter into an exchange transaction had the currency been exchangeable into other currency, and (iii) a rate that reflects the prevailing economic conditions.

2. **Use of Observable Exchange Rate** - While determining the estimated spot rate, an entity may use the observable exchange rate as estimated exchange rate if (i) it is a spot rate for a purpose other than that for which the entity assess exchangeability; (ii) it is the first exchange rate at which the entity can determine the other currency after exchangeability of the currency is restored.

How to determine that a currency is exchangeable into other currency or not?

A currency is considered to be exchangeable into another currency when an entity is able to exchange that currency for other currency using a spot exchange rate.

According to Appendix A (Application Guidance) - A currency is exchangeable into other currency at a measurement date when an entity is able to exchange it for other currency within a normal timeframe which includes normal and administrative delay. Further, an entity should assess at each reporting period, whether a currency is exchangeable into another currency or not. However, if an entity is unable to obtain a significant amount of other currency then the currency should be considered as not exchangeable.

A spot exchange rate is the rate at which the currency is exchangeable for immediate delivery.

What disclosures should an entity provide in support of above transaction?

The entity should provide all the necessary disclosures in respect of above transaction in its books of accounts to enable the users of financial statements in evaluating the financial performance and financial position of an entity. Though the above situation seems to be infrequent but it could materially impact the strategic decisions of the users and accordingly, an entity should disclose the following additional information in notes to accounts:-

1. A description of reasons/ restrictions that result into lack of exchangeability for currency;

2. The nature and financial effect of lack of exchangeability rate;

3. The Spot Exchange Rate (s) used;

4. The estimation process; and

5. The extent of risks to which an entity is exposed because of lack of exchangeability.

The board has further proposed that the amendments to the standard shall be applicable to an entity prospectively from the beginning of the annual period in which the entity first applies the amendment and the entity shall not restate the comparatives information. The board has kept the draft open for public comments till 1 September 2021.

(Taxmann.com)