

31 August 2021

Andreas Barckow  
Chair  
International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
United Kingdom

Dear Dr Barckow

## ED/2021/4 Lack of Exchangeability

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the Board') exposure draft *Lack of Exchangeability* ('the ED').

We commend the Board for its efforts to address the issues faced by entities that operate in economies in which the currency lacks exchangeability and seek to present financial statements that are relevant and provide a faithful representation of the financial performance and position of the entity. We acknowledge that the use of an official exchange rate may not produce meaningful results when this rate is not available to the entity. However, we do not believe that attempting to estimate the exchange rate that would have been available if the currency had been exchangeable would produce meaningful results either. The determination of a reliable, meaningful and auditable estimate requires economic data (including inflation data) that are generally not available in these circumstances. Accordingly, we believe that the Board should seek a solution that gives precedence to comparability.

We agree that the first step in addressing the issue is to determine when exchangeability between two currencies is lacking. We believe that lack of exchangeability reflects a market wide economic situation. Therefore, we believe that it should be determined at the level of the economy and not at an entity level, as proposed in the ED. Similar to the principle in IAS 29 that indicates that it is preferable that all entities that report in the currency of the same hyperinflationary economy apply IAS 29 from the same date, we would suggest that the conclusion that there is a lack of exchangeability should reflect the general view of the state of the affected economy. We suggest that the Board should develop factors that entities would consider in making this assessment. We believe that lack of exchangeability is an extreme situation. As such, similar to the threshold proposed in the ED, we would propose that a currency is not exchangeable into another currency only if there is no more than an insignificant level of amount of currency that can be exchanged using the official exchange rate.

We believe that unless the lack of exchangeability is established, entities should be required to use the official exchange rate. It would be useful to provide guidance on which official exchange rate an entity should use when multiple exchange rates are available (similar to what is proposed in the ED).

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If the lack of exchangeability is established, entities should be permitted to use either the official exchange rate or another exchange rate available to them. We propose that the alternative rates that an entity could use would include another official exchange rate (if there are multiple official exchange rates), the first subsequent exchange rate (if exchangeability is re-established) or the exchange rate available on a parallel market (including on a parallel market in which the exchange transaction would not create enforceable rights and obligations, as this concept is presented in the ED). We strongly believe that such an approach, supported by clear disclosures, would achieve more relevant information through increased comparability and transparency.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V Poole', with a stylized flourish at the end.

**Veronica Poole**  
Global IFRS and Corporate Reporting Leader

## Appendix

### 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.

We do not agree that exchangeability between two currencies should be assessed at the entity level.

We believe that lack of exchangeability reflects a market wide economic situation. Therefore, we believe that it should be determined at the level of the economy and not at an entity level, as proposed in the ED. Similar to the principle in IAS 29 that indicates that it is preferable that all entities that report in the currency of the same hyperinflationary economy apply this IAS 29 from the same date, we would suggest that the conclusion that there is a lack of exchangeability should reflect the general view of the state of the affected economy. We suggest that the Board should develop factors that entities would consider making this assessment. We believe that lack of exchangeability is an extreme situation. As such, similar to the threshold proposed in the ED, we would propose that a currency is not exchangeable into another currency if and only if there is no more than an insignificant level of amount of currency that can be exchanged using the official exchange rate.

If the Board retains its proposed approach of assessing exchangeability at the entity level, we agree that a currency should be considered exchangeable in another currency when the entity is able to obtain more than an insignificant amount of that other currency. We also suggest that the Board should clarify the following aspects of its proposals:

- Level at which exchangeability is assessed: if an entity enters into multiple foreign currency transactions and an exchange mechanism exists for some but not all these transactions (e.g. an exchange mechanisms exists only for transactions related to essential goods), should exchangeability for the purposes of applying paragraph A9(a) be assessed for all foreign currency transactions or separately depending on the nature of the transactions? The ambiguity stems from the fact that paragraph BC10 appears to indicate that when reporting foreign currency transactions, an entity assesses exchangeability at the transaction level whereas paragraph BC15 explains that the sufficiency of the amount of foreign currency available is assessed in aggregate.
- Paragraph A10 illustrates various means by which an entity might realise its net assets or those of its foreign operations. However, it is not clear whether an entity should assess exchangeability based on the method in which it expects to realise the net assets or not. The ambiguity stems from the fact that paragraph A6, which indicates a currency is exchangeable if an entity is able to obtain that currency even though it may not intend do so, caveats this requirement by indicating “*subject to the requirements in paragraph A5-A11*”. This raises the question of how paragraph A10 affects the application of paragraph A6.

**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.

We disagree with the proposal that, if a currency is not exchangeable into another currency, an entity should estimate an exchange rate. In most circumstances, lack of exchangeability arises in economies with high inflation for which reliable data is also lacking. We do not believe that it is possible to reliably estimate exchange rates in such circumstances. Indeed, the absence of reliable inputs on which to base an estimate results in an arbitrary estimate that cannot be audited with an appropriate level of confidence. Therefore, we have serious concerns about the meaningfulness and comparability of the financial information that would be produced using such an estimate.

We believe that unless the lack of exchangeability is established, entities should be required to use the official exchange rate. It would be useful to provide guidance on which official exchange rate an entity should use when multiple exchange rates are available (similar to what is proposed in the ED).

If the lack of exchangeability is established, entities should be permitted to use either the official exchange rate or another exchange rate available to them. We propose that the alternative rates that an entity could use would include another official exchange rate (if there are multiple official exchange rates), the first subsequent exchange rate (if exchangeability is re-established) or the exchange rate available on a parallel market (including on a parallel market in which the exchange transaction would not create enforceable rights and obligations, as this concept is presented in the ED).

**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.

We generally agree with the proposed disclosures, subject to the following observations.

We believe that it would be helpful for the Board to provide further clarification (or illustrative disclosure) on the information required by A17 on “each type of risk to which an entity is exposed because of the lack of exchangeability”.

We also note that paragraph A18 requires summarised financial information about foreign operations that have a functional currency that is not exchangeable into a presentation currency. We suggest that the Board should consider whether this requirement should be better aligned with the requirements in IFRS 12. For example, IFRS 12:B11 clarifies that the summarised information about subsidiaries with material non-controlling interests must be provided before inter-company elimination and IFRS 12:B12

requires summarised information about joint ventures and associates that are material to the reporting entity.

**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.

We agree that the transition provisions proposed in the ED would be appropriate.