RSM International Limited

50 Cannon Street
London
EC4N 6JJ
United Kingdom
T +44 207 601 1080
rsm.global

26 August 2021

Mr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

Re: Exposure Draft ED/2021/4 – Lack of Exchangeability

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2021/4 Lack of Exchangeability ('the ED').

We support the IASB's decision to provide guidance on situations in which a foreign operation's functional currency is not exchangeable into the presentation currency. As noted in the ED, such situations arise relatively infrequently; however, given the diversity in practice that results when the situations do exist, we support the Board's efforts to address the issue. While we believe those efforts will result in improvements, we propose additional recommendations in our responses to the Questions for Respondents included in the ED.

We would be pleased to respond to any comments the Board or its staff may have about our response. If you have any questions or comments please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 (0)207 601 1842).

Yours sincerely,

Marion Hannon
Global Leader, Quality & Risk
RSM International

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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 agree with the Board's proposals, but recommend that the guidance in paragraphs A2-A11 be moved to the standard itself, rather than appearing in the Application Guidance appendix.

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 agree with the intent but question the construction of paragraph 19A. Paragraph 19A would require that, if a currency is not exchangeable on the measurement date, an entity estimate a spot exchange rate as of that date. In making that estimate, the guidance in paragraph 19A requires the estimated rate to meet three conditions. However, if those conditions were to exist on the measurement date, we question whether exchangeability would be lacking.

Rather than requiring the conditions to be met, we recommend that the guidance suggest that an entity attempt to maximize use of the conditions to the extent possible in estimating a spot exchange rate, similar to the hierarchy approach in IFRS 13.

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 agree with the proposed disclosure requirements.

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 with the proposed transition requirements.

We have no other comments on the DP.

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