August 18, 2021

IFRS Foundation
Columbus Building
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Canary Wharf
London E14 4HD
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By e-mail: commentletters@ifrs.org

Re: Exposure Draft ED/2021/4 – *Lack of Exchangeability*
Proposed Amendments to IAS 21

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 22,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's International Accounting and Auditing Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Richard C. Jones, Chair of the International Accounting and Auditing Committee, at (516) 463-6990, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A
N Y S S C P A

Rumbi Bwerinofa-Petrozzello
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

EXPOSURE DRAFT ED/2021/4 – *LACK OF EXCHANGEABILITY PROPOSED AMENDMENTS TO IAS 21*

August 18, 2021

<u>Principal Drafter</u>

Lily H. Wang

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New York State Society of Certified Public Accountants

Comments on

Exposure Draft ED/2021/4 – *Lack of Exchangeability*
Proposed Amendments to IAS 21

We welcome the opportunity to respond to the International Accounting Standards Board's (IASB or the Board) invitation to comment on its Exposure Draft – *Lack of Exchangeability, Proposed Amendments to IAS 21* (ED).

General Comments

We acknowledge that diversity in practice exists in certain jurisdictions where there is an other-than-temporary lack of a spot exchange rate for reporting transactions in an entity's functional or reporting currency. In the absence of accounting guidance in IAS 21 – *The Effects of Changes in Foreign Exchange Rates*, such diversity could lead to inconsistencies or even material differences in the financial reporting of entities' financial positions. Therefore, we support the Board's proposal to amend IAS 21 and provide guidance for an entity to determine whether a currency is exchangeable into another currency and specify the application of accounting requirements when it is not.

While we broadly agree with the Board's proposed principles in defining and assessing exchangeability, we are of the view that additional guidance is needed in the area of estimating an appropriate spot exchange rate after a lack of exchangeability is determined, particularly in situations where the currency in an affected transaction is not exchangeable into the functional or reporting currency either after the measurement date, or if the first subsequent exchange rate fails to meet the conditions in paragraph 19A. We recommend the Board consider adoption of a hierarchical structure analogous to the fair value hierarchy in IFRS 13 – *Fair Value Measurement*. Furthermore, supplemental examples might be included to illustrate how an entity may reasonably estimate an appropriate exchange rate under such circumstances. Please see our comments in response to Question 2 for more detail.

Specific Comments

We offer our responses to the Questions for Respondents (reprinted in italics) below.

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.

Response: We agree with the proposed amendments and factors set forth in paragraph A2-A11 regarding the assessment of lack of exchangeability. We find the two-step approach as illustrated in the diagram of A1 a useful tool to assist preparers in making their determination.

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.

Response: We agree with the proposed requirement that when a currency is not exchangeable into another currency for the affected transaction(s), an entity shall estimate the spot exchange rate at the measurement date. As noted in our general comments, while we support the Board's proposed conditions that an estimated spot exchange rate must meet in paragraph 19A-19B, we believe the proposed guideline falls short regarding the estimation of a spot exchange rate in situations where the currency in an affected transaction is not exchangeable into the functional or reporting currency either after the measurement date, or when the first subsequent exchange rate fails to meet the conditions in paragraph 19A. (We refer to the last box in the diagram in A1).

We appreciate the Board's reasoning of not providing detailed requirements on how an entity should make that estimation (paragraph BC 18). Indeed, there may be many estimation models and techniques in place, and which one to use depends on the specific facts and circumstances of the affected transaction(s). However, we believe additional guidance is necessary to address situations where there is a lack of observability or some of the factors as laid out in paragraph A13 are not present.

We recommend the Board consider adopting a framework analogous to the fair value hierarchy in IFRS 13. Supplemental examples may be included to illustrate how an entity may reflect the proposed guidelines in its estimation of an appropriate spot exchange rate under the above-discussed circumstances. In our view, the additional guidance combined with illustrative examples would not only benefit the preparers in their estimation process, but also enhance the Board's project objective of reducing the diversity in accounting for these transactions.

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.

Response: 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.

Response: We agree with the proposed transition requirements.