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Dear Andreas,

IASB Exposure Draft ED/2021/4 *Lack of Exchangeability*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Draft ED/2021/4 *Lack of Exchangeability* issued by the IASB on 20 April 2021 (herein referred to as 'ED'). We appreciate the opportunity to comment on the proposals.

We note that there is a diversity in practice on how to assess the lack of exchangeability of a currency and to determine the spot exchange rate to be used in the absence of exchangeability. We therefore welcome the ED and the IASB's efforts to create provisions which would help companies to determine whether a currency can be exchanged into another currency, and what accounting to apply if the currency cannot be exchanged.

We support the Board's decision to set up conditions to support the estimation process instead of proposing detailed requirements or specify a particular estimation technique.

However, we suggest including some illustrative examples on how an entity would reasonably estimate the exchange rate when there is no observable exchange rate or when the observable exchange rate does not meet the conditions of an estimated spot rate in paragraph 19A. Further, we believe it would be helpful if the Board illustrates reflecting the inflation in estimating the spot exchange rate in an example.

Our responses to the questions of the ED are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Olga Bultmann (bultmann@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

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Appendix – Answers to the questions in the ED

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 proposed amendments regarding the assessment of lack of exchangeability.

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 welcome the proposal that an entity estimates the spot exchange rate when a currency is not exchangeable into another currency, and we generally agree with the proposed approach on how an entity determines the spot exchange rate in this case.

We share the IASB’s view that the estimation of a spot exchange rate depends on entity-specific and jurisdiction-specific facts and circumstances. We therefore support the Board’s decision to set up conditions to support the estimation process instead of proposing detailed requirements or specify a particular estimation technique.

However, we suggest including some illustrative examples on how an entity would reasonably estimate the exchange rate when there is no observable exchange rate or when the observable exchange rate does not meet the conditions of an estimated spot rate in paragraph 19A. We would welcome if the IASB develops examples of the estimation procedures based on real circumstances, e.g., lacking exchangeability in Venezuela a few years ago or currently in Lebanon.

In our view, these examples should address the cases when some of the conditions listed in paragraph A13 are not met and illustrate how an entity would reflect these facts in estimating the exchange rate.



Further, we note that the ED does not address the interaction with IAS 29 *Financial Reporting in Hyperinflationary Economies* and does not provide any requirements when exchangeability is lacking for a currency of a hyperinflationary economy. The original question submitted to the IFRS Interpretations Committee referred to cases where the effects of hyperinflation were not offset by a corresponding reduction in the exchange rate (because, for example, there is only one 'official' fixed exchange rate).

We believe this issue is very important. We note that distortions in the consolidated financial statements arise if a foreign operation whose functional currency is that of a hyperinflationary economy restates its financial statements in accordance with IAS 29 to reflect the effect of increasing prices on the one hand but use the exchange rate that does not or not enough reflect inflation for purposes of translating the financial statements of this foreign operation into the presentation currency applying IAS 21 on the other hand. In our understanding the proposals in the ED, an entity would apply judgement in estimating the spot exchange rate in those situations. We deem that an entity would need to consider the inflation in exercising this judgement. We believe it would be helpful if the Board illustrates reflecting the inflation in estimating the spot exchange rate in an example.

In our view, including some illustrative examples of possible reasonable estimation procedures would assist entities in determining the exchange rate and contribute to reducing diversity in practice.

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.