

# Accounting Alert – Lack of exchangeability

## Executive Summary

The International Accounting Standards Board (IASB) has amended IAS 21 ‘The Effects of Changes in Foreign Exchange Rates’ to clarify the approach that should be taken by preparers of financial statements when they are reporting foreign currency transactions, translating foreign operations, or presenting financial statements in a different currency, and there is a long-term lack of exchangeability between the relevant currencies.



## The Amendments

The amendments include both updates to guidance to assist preparers in correctly accounting for foreign currency items and increases the level of disclosure required to help users understand the impact of a lack of exchangeability on the financial statements. The amendments:

- introduce a definition of whether a currency is exchangeable, and the process by which an entity should assess this exchangeability. This includes application guidance included in a new Appendix A
- provide guidance on how an entity should estimate a spot exchange rate in cases where a currency is not exchangeable
- require additional disclosures in cases where an entity has estimated a spot exchange rate due to a lack of exchangeability, including the nature and financial impact of the lack of exchangeability, and details of the spot exchange rate used and the estimation process.

The additional disclosure requirements provide useful information about the additional level of estimation uncertainty, and risks arising for the entity due to the lack of exchangeability. The amendments to IAS 21 are effective for accounting periods on or after 1 January 2025, with earlier application permitted.



## Our thoughts

Until now IAS 21 included guidance on the exchange rate to be used when exchangeability between two currencies was temporarily lacking but was silent on the approach to be taken when a lack of exchangeability was not temporary. Although lack of exchangeability may occur relatively infrequently, in such cases economic conditions can often deteriorate quickly. Diversity in applying existing IAS 21 guidance may therefore lead to material differences in how events and transactions are reported. These amendments provide guidance that will increase comparability between financial statements and provide more useful information to users.

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