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Update on the activity of the IFRS Interpretations Committee

Objective

1 The objective of this paper is to provide, for information purposes, a summary of the main open issues discussed by the IFRS Interpretations Committee (the 'IFRS IC' or the 'Committee').

2 The paper focuses on the issues that are still 'open' at the date of the summary, that is, matters that have not yet led to a final decision by the IFRS IC.

3 The purpose of the presentation is to raise EFRAG FR TEG's and EFRAG CFSS's awareness on the issues being discussed at the IFRS IC and possible interactions with EFRAG's commenting activities and future standard setting. The session is not intended, however, to respond to the IFRS IC tentative decisions. Therefore, the paper does not contain EFRAG Secretariat's initial views on the issues and does not seek EFRAG FR TEG's nor EFRAG CFSS's technical assessment on the matters.

4 If EFRAG FR TEG or EFRAG CFSS express the wish to further discuss any of the presented issues, a session could be organised at a future meeting.

Overview of IFRS IC's current activity

5 Below is an overview of the IFRS IC's current activities.

Project **(including hyperlinks to the IASB project pages for each item)**	**Related Standards**	**Current status**	**Next milestone**	**Next milestone expected date**
Tentative Agenda Decision Feedback				
Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition	IAS 32	Consultation ended 23 May 2022	Tentative Agenda Decision Feedback	September 2022
Lessor Forgiveness of Lease Payments	IFRS 16 IFRS 9	Consultation ended 23 May 2022	Tentative Agenda Decision Feedback	September 2022
Multi-currency Groups of Insurance Contracts	IFRS 17/ IAS 21	Consultation ended 19 August 2022	Tentative Agenda Decision Feedback	September 2022
Finalised AD subject to IASB approval				

Project **(including hyperlinks to the IASB project pages for each item)**	**Related Standards**	**Current status**	**Next milestone**	**Next milestone expected date**
Cash received via an electronic transfer system	IFRS 9	Final Tentative Agenda Decision (July 2022)	Agenda decision	September 2022
Initial consideration				
Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent	IAS 21/IAS 29	Initial consideration (Further research and outreach to be performed)	Consultation	Not specified at the time of writing the paper
Input to IASB project				
Lack of Exchangeability	IAS 21	Providing recommendations on the project direction		Not specified at the time of writing the paper

Tentative Agenda Decision Feedback

Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition

Issue and background

6 The IFRS IC received a request about the acquisition of a special purpose acquisition company (SPAC) by an operating company. The request asked how the operating entity accounts for warrants (right, but not the obligation, to buy or sell equity at a certain price before expiration) on acquiring the SPAC.

7 The fact pattern described in the submission is:

(a) The SPAC was created to raise cash in an initial public offering (IPO). At the time of the acquisition, SPAC has no assets other than cash;

(b) The SPAC does not meet the definition of a business in accordance with IFRS 3 *Business Combinations*;

(c) Before the acquisition, the SPAC's ordinary shares were held by its founder shareholders and public investors;

(d) Before the acquisition, the SPAC issued warrants to both its founder shareholders and public investors;

(e) To carry out the acquisition, the operating entity sets up a new parent company (NewCo);

(f) The NewCo acquires the SPAC by issuing new ordinary shares and warrants to the SPAC's founder shareholders and public investors in exchange for the SPAC's ordinary shares and the cancellation of the SPAC's warrants;

(g) The fair value of the instruments the NewCo issues to acquire the SPAC exceeds the fair value of the identifiable net assets of the SPAC.

(h) The SPAC becomes a wholly-owned subsidiary of the NewCo.

(i) The NewCo replaces the SPAC as the entity listed in the stock exchange.

8 The submitter asks whether, in the fact pattern described in the submission, the warrants NewCo issues to SPAC shareholders:

(a) are in the scope of IFRS 2 or represent a liability assumed by the entity as part of the acquisition; and

(b) if the warrants are in the scope of IFRS 2, whether they remain so after the acquisition date.

IFRS IC's tentative conclusions (March 2022)

9 The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine how to account for warrants on acquiring a SPAC in the fact pattern that the Committee discussed. Consequently, the Committee decided not to add a standard-setting project to the work plan.

Comment letter summary

10 IFRS IC received 10 comment letters by the comment letter deadline.

11 Many respondents generally agreed (or do not disagree) with the Committee's analysis and conclusions. However, some of these respondents:

(a) comment on aspects of the Committee's analysis; or

(b) express concerns about potential unintended consequences for other fact patterns.

12 Some respondents disagreed with the Committee's analysis and conclusions. They say the Committee's analysis is not the only way of applying IFRS Accounting Standards to the fact pattern discussed or does not seem intuitive.

13 Some respondents suggested that the Committee not finalise the agenda decision, but instead refer the matter to the IASB for it to assess whether standard-setting is needed.

IFRS IC Staff conclusion and recommendation

14 The IFRS IC Staff concluded that:

a) the scope paragraphs in IFRS 2 and IAS 32 clearly identify the instruments and transactions within their scope. The applicable requirements in IFRS 2, IAS 32 and IFRS 9 specifically apply to the transactions and instruments within their scope;

b) differences in the classification of instruments with the same terms result from the different classification requirements in IFRS 2 and IAS 32;

c) discussion in the basis for conclusion on IFRS 2 explains that the IASB intended IFRS 2 to capture the remuneration for services when a single instrument is issued predominantly for cash but also provides remuneration to employees for services (as is the case with employee share purchase plans under which shares are offered for a small discount).

d) no basis in IFRS Accounting Standards to account for the SPAC acquisition in its entirety in the scope of either IFRS 2 or IAS 32 because the entity acquires both cash and a stock exchange listing service.

15 The IFRS IC Staff recommended finalising the agenda decision at the first IASB meeting at which it is practicable to present it.

16 The topic will be discussed at the IFRS IC meeting in September.

Lessor Forgiveness of Lease Payments

Issue and background

17 The IFRS IC received a submission about the application of IFRS 9 *Financial Instruments* and IFRS 16 *Leases* by both a lessor and a lessee in accounting for a particular rent concession. The rent concession results in the forgiveness by the

lessor of amounts due from the lessee (comprising both amounts already recognised in receivables and future payments amounts not recognised as receivable) under the lease.

18 For the lessor, the rent concession applies to a lease contract classified as an operating lease.

19 For the lessee, the rent concession applies a lease contract for which the lessee has recognised a right-of-use asset and a lease liability (i.e., the lessee has elected to apply neither of the recognition exemptions in paragraph 5 of IFRS 16).

20 Regarding the lessor accounting, the submitter asks:

(a) how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable when the lessor expects to forgive payments due from the lessee under the lease before the rent concession is granted.

(b) whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.

21 Regarding the lessee accounting, the submitter asks whether the lessee applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession. Regarding the lessee accounting, considering the two possible responses to the submitted question, in March 2022 the IASB Staff recommended amending IFRS 16 (though the next annual improvements cycle) to exclude from the scope of IFRS 16 changes to a lease contract that result only in the extinguishment of the lessee's lease liability (or a part of it) as described in paragraph 3.3.1 of IFRS 9. For changes to lease contracts that result only in extinguishment, the lessee would apply the derecognition requirements in IFRS 9. The IASB noted that there was no adequate basis to determine the correct accounting as two different possibilities exist.

IFRS IC's tentative agenda decision (March 2022)

22 *Applying the expected credit loss model in IFRS 9 to the operating lease receivable* - The Committee concluded that, in the period before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including considering its expectations of forgiving lease payments recognised as part of that receivable.

23 *Lessor accounting for the rent concession* - The Committee concluded that the lessor accounts for the rent concession described in the request by applying:

(a) the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor had included in an operating lease receivable on the date the rent concession is granted; and

(b) the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor had not included in an operating lease receivable.

24 The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a lessor to determine how to apply the expected credit loss model in IFRS 9 to an operating lease receivable and account for the rent concession described in the request. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan.

Comment letter summary

25 The IFRS IC received 23 comment letters on the tentative agenda decision by the comment deadline.

26 Seven respondents agreed with all the Committee's analysis and conclusions for the reasons explained in the tentative agenda decision.

27 Four respondents agreed with aspects of the Committee's analysis and conclusions and request clarification about other aspects or raise additional questions they suggest the Committee analyse.

28 Eleven respondents disagreed with some or all of the Committee's analysis and conclusions. These respondents said:

(a) they either (i) disagree with the approach described in the tentative agenda decision for application of the expected credit loss (ECL) model to the operating lease receivable in the submitted fact pattern; or (ii) view that approach as only one possible interpretation of IFRS 9;

(b) on the date a rent concession is granted, it remains unclear whether IFRS 9 or IFRS 16 takes precedence;

(c) the tentative agenda decision is not persuasive in concluding that forgiven lease payments are not accrued lease payments or lease incentives applying IFRS 16; and

(d) the conclusions in the tentative agenda decision could affect a much wider population of transactions than the narrow fact pattern submitted. This could result in differing accounting treatments for similar transactions or create opportunities for structuring

29 One respondent did not express a view on the Committee's technical analysis and conclusions. This respondent requests clarification about application of the ECL model in IFRS 9 when cash shortfalls are not related to credit risk

30 Many respondents suggested ways to proceed. These respondents said, rather than publishing an agenda decision, the Committee should ask the IASB to either:

(a) consider the questions as part of the post-implementation review (PIR) of IFRS 9's impairment requirements or the PIR of IFRS 16; or

(b) undertake a standard-setting project to address the questions submitted.

31 Some of these respondents noted the Committee's recommendation for the IASB to consider narrow-scope standard-setting for lessees and suggest that the IASB address questions about rent concessions for both lessors and lessees as part of the same standard-setting project.

IFRS IC Staff analysis and recommendations

32 The IFRS IC Staff concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a lessor to determine how to apply the ECL model in IFRS 9 to an operating lease receivable and account for the rent concession described in the submission. For that reason, they recommended finalising the agenda decision.

33 In addition, they suggested adding wording to the agenda decision to further clarify that the Committee considered only the fact pattern submitted and not others that include changes to the lease contract beyond those in the submitted fact pattern.

34 The IFRS IC Staff recommended finalising the agenda decision, as published in the IFRIC Update in March 2022, with changes to the tentative agenda decision as suggested above.

35 The topic will be discussed at the IFRS IC meeting in September.

Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)

Issue and background

36 The IFRS IC received a submission about the application of IFRS 17 Insurance Contracts and IAS 21 The Effects of Changes in Foreign Exchange Rates to a group of insurance contracts with foreign currency cash flows.

37 The submission asks three questions:

(a) how and when does an entity determine the currency in which an individual insurance contract with cash flows in multiple currencies (a 'multi-currency' contract) is denominated? (Referred to as Question 2 in the IASB paper)

(b) is an entity required to consider currency risk when assessing 'similar risks' for the purpose of identifying portfolios of insurance contracts? (Referred to as Question 1 in the IASB paper)

(c) how does an entity determine the currency in which the contractual service margin of a group of insurance contracts is denominated? (Referred to as Question 2 in the IASB paper)

38 The IASB sent information requests to members of the Transition Resource Group for IFRS 17 (TRG) and they also received input from an industry body and two preparers.

39 Outreach responses indicated that the matter has widespread effect and could have a material effect on entities affected. Also, depending on the specific circumstances and the terms of the contracts, entities could use different approaches when applying IAS 21 to a multi-currency group of insurance contracts.

40 However, any standard-setting on the matter of how to account for the foreign currency aspects of multi-currency groups of contracts would require some considerable time and effort. Also, it would impact not only contracts in scope of IFRS 17 but also multi-currency contracts within the scope of other IFRS Standards. The IASB Staff have no evidence at this stage that the expected benefits of such standard-setting would outweigh the expected costs and that the matter is sufficiently narrow in scope for the IASB or the IFRS IC to address it in an efficient manner.

41 In June 2022, the IFRS IC published a tentative agenda decision in response to a submission about how to account for insurance contracts that generate cash flows in more than one currency.

IFRS IC's tentative agenda decision (June 2022)

42 *Identifying portfolios of insurance contracts* - The Committee concluded that, because paragraph 14 of IFRS 17 refers to 'similar risks' without specifying any particular types of risk, an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios of insurance contracts. However, 'similar risks' do not mean 'identical risks'. An entity could therefore identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The Committee observed that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts.

43 *Measuring a multi-currency group of insurance contracts* - The Committee observed that, in measuring a multi-currency group of insurance contracts, an entity:

(a) applies all the measurement requirements in IFRS 17 to the group of insurance contracts, including the requirement in paragraph 30 to treat the group—including the contractual service margin—as a monetary item.

(b) applies IAS 21 to translate at the end of the reporting period the carrying amount of the group—including the contractual service margin—at the closing rate (or rates).

(c) develops an accounting policy to determine on initial recognition the currency or currencies in which the group—including the contractual service margin—

is denominated. The entity uses its judgement in developing and applying an accounting policy based on its specific circumstances and the terms of the contracts in the group. The accounting policy must result in information that is relevant and reliable (as described in paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) and be applied consistently for similar transactions, other events and conditions (paragraph 13 of IAS 8). The entity could determine that the group—including the contractual service margin—is denominated in a single currency or in the multiple currencies of the cash flows in the group. The entity cannot simply deem the contractual service margin for the group to be denominated in the functional currency because simply deeming such a denomination would, in effect, fail to treat the contractual service margin as a monetary item as required by paragraph 30 of IFRS 17.

44 In addition, if an entity were to determine that for the purpose of applying IAS 21 the contractual service margin is denominated in the multiple currencies of the cash flows in the group, the entity would:

(a) assess whether the group of contracts is onerous considering the contractual service margin as a single amount, after translation into the functional currency; and

(b) determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future.

45 The Committee considered whether to add to the work plan a standard-setting project on how to account for the foreign currency aspects of insurance contracts. The Committee observed that it has not obtained evidence that such a project would be sufficiently narrow in scope that the IASB or the Committee could address it in an efficient manner. Consequently, the Committee decided not to add a standard-setting project to the work plan.

Comment letter summary

46 The IFRS IC received 18 comment letters by the comment letter deadline.

47 All respondents agreed with the Committee's decision not to add a standard-setting project to the work plan.

48 Seventeen respondents agreed (or did not disagree) with the Committee's conclusion that an entity is required to consider all risks, including currency exchange rate risks, when identifying portfolios of insurance contracts. One respondent expressed concerns that if an entity were to apply that conclusion to risks other than currency exchange rate risks, the resulting level of aggregation might be inappropriately high.

49 Eleven respondents agreed (or did not disagree) with the Committee's conclusions regarding the measurement of a multi-currency group of insurance contracts. Seven respondents expressed concerns, or ask for clarity, about the Committee's conclusion that an entity could develop a multi-currency accounting policy.

IASB Staff conclusion and recommendations

50 IASB Staff continued to agree with the Committee's technical analysis and conclusions in the tentative agenda decision, subject to some wording changes. The changes they proposed to the wording of the tentative agenda decision were to note:

(a) the accounting policy of the currency or currencies in which a group of contracts is denominated determines what amounts are the effect of changes in financial risk accounted for applying IFRS 17 and what amounts are exchange differences accounted for applying IAS 21; and

(b) the CSM represents the unearned profit and not the unearned losses of a group of contracts. Accordingly, an entity is required to limit the carrying amount of the CSM to zero

51 IASB Staff recommended finalising the agenda decision with changes to the tentative agenda decision as described above and asking the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

52 The topic will be discussed at the IFRS IC meeting in September.

Finalised Agenda decision subject to IASB approval

Cash received via an electronic transfer system

53 There are diverse views on when to recognise cash received via electronic transfer as settlement for a financial asset, where the electronic transfer system has a formal automated settlement process which takes more than one day to complete.

Fact pattern

54 Entity A's year-end is 31 December 20X0. In November 20X0, Entity A sells goods to Entity B and recognises a trade receivable of CU100. On 31 December 20X0, Entity B notifies Entity A that it has initiated the payment of CU100 by the UK BACS payment system to settle the amount due. On 2 January 20X1, Entity A receives CU100 into its bank account as cleared funds.

55 The question raised is: Is it acceptable for Entity A to recognise cash of CU100 (and derecognise the trade receivable) on 31 December 20X0?

IFRS IC's tentative agenda decision (September 2021)

56 In the fact pattern described in the request, the IFRS IC concluded that, applying paragraphs 3.2.3 and 3.1.1 of IFRS 9, the entity:

(a) derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and

(b) recognises the cash (or another financial asset) received as settlement for that trade receivable on the same date.

57 The IFRS IC concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine when to derecognise a trade receivable and recognise cash received via an electronic transfer system as settlement for that receivable. Consequently, the IFRS IC tentatively decided not to add a standard-setting project to the work plan.

Comment letter summary

58 27 comment letters were received. Almost all respondents agreed (or did not disagree) with the Committee's analysis and conclusions in the tentative agenda decision. Nonetheless, many respondents commented on the outcomes of finalising the agenda, e.g., it would cause undue disruption to long-standing accounting practices, be costly and complex to apply (adapting systems/processes and legal analysis to determine when rights to cash flows expire across different payment methods and jurisdiction). Therefore, they suggested not to finalise the agenda decision or to be addressed as part of the PIR of IFRS 9 or another standard-setting project.

IASB Staff conclusion

59 The IASB Staff continue to agree with the Committee's technical analysis and conclusions in the tentative agenda decision. That is, they agree with the Committee's:

(a) analysis that, in the submitted fact pattern, the entity applies paragraph 3.2.3(a) of IFRS 9 to determine the date on which to derecognise the trade receivable and paragraph 3.1.1 of IFRS 9 to determine the date on which to recognise the cash as a financial asset; and

(b) conclusion that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine when to derecognise a trade receivable and recognise cash received via an electronic transfer system as settlement for that receivable

IFRS IC's conclusion (June 2022)

60 The Committee considered feedback on the tentative agenda decision published in the *September 2021 IFRIC Update* about the recognition of cash received via an electronic transfer system as settlement for a financial asset.

61 The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's Due Process Handbook, the IASB will consider this agenda decision at a future meeting (September 2022). If the IASB does not object to the agenda decision, it will be published in an addendum to the IFRIC Update.

Initial consideration

Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent (IAS 21 and IAS 29)

Issue and background

62 The IFRS Interpretations Committee received a request to clarify the application of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies* in regard to consolidating a non-hyperinflationary economy subsidiary by a hyperinflationary economy parent. In particular the submitter asked to clarify whether the parent applies IAS 29 to restate the current year and comparative amounts presented for its non-hyperinflationary subsidiary so that those amounts would be expressed in terms of the measuring unit current at the end of the reporting period (the reporting date).

63 The submitter identified two existing approaches, as follows:

(a) View I:

(i) the parent does not restate the results and financial position of its non-hyperinflationary subsidiary in terms of the measuring unit current at the reporting date.

(ii) Proponents of this view highlight the requirement in the last sentence of paragraph 35 of IAS 29, which states 'the financial statements of subsidiaries that do not report in the currencies of hyperinflationary economies are dealt with in accordance with IAS 21'.

(b) View II:

(i) the parent restates the results and financial position of its non-hyperinflationary subsidiary in terms of the measuring unit current at the reporting date.

(ii) Proponents of this view note that paragraph 1 of IAS 29 includes within the scope of IAS 29 the consolidated financial statements of any entity whose functional currency is that of a hyperinflationary economy and refer to the overall objective and requirements in IAS 29 that require the financial statements to be stated in terms of the measuring unit current at the reporting date

Summary of outreach

64 The IFRS IC Staff, during an initial outreach with Big Audit firms and IFASS members, received twelve responses - seven from large accounting firms, three from national standard setters, and two from securities regulators. The results revealed that the fact pattern is common in several jurisdictions e.g., Argentina, Lebanon, Turkey, and Zimbabwe, however it's not necessarily material. Most respondents have also observed diversity in accounting practice with neither View 1 nor View 2 clearly prevailing.

IASB Staff Recommendation

65 The IFRS IC Staff initially concluded that an entity could reasonably read the applicable requirements in IAS 21 and IAS 29 to require - or not require - restatement of the non-hyperinflationary subsidiary in terms of the measuring unit current at the reporting date.

66 They also concluded that the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting.

67 The IFRS IC Staff recommended to the IFRS IC that further research and outreach should be conducted to decide whether to add a standard setting project or not. They would like to obtain the following:

(a) Further information on the prevalence of the matter and whether it has (or is expected to have) a material effect on entities affected.

(b) Information about other related matters (if any) with respect to the application of IAS 29.

(c) Information about the feasibility of possible narrow-scope standard-setting and the usefulness of the information provided by those possibilities.

IFRS IC update June 2022

68 The Committee discussed a request about the accounting applied by a parent, whose functional currency is the currency of a hyperinflationary economy, when it consolidates a subsidiary, whose functional currency is the currency of a non-hyperinflationary economy.

69 The Committee concluded that, applying the requirements in IAS 21 and IAS 29 to the submitted fact pattern, the parent could restate or not restate the subsidiary's results and financial position in terms of the measuring unit current at the end of the reporting period.

70 The Committee will decide whether to add a standard-setting project to the work plan at a future meeting after considering information to be obtained from further research and outreach on the topic.

Input to IASB project

Lack of Exchangeability

Issue and background

71 IAS 21 generally requires the use of a spot exchange rate when an entity reports foreign currency transactions or a foreign operation's results and financial position in its financial statements. A spot exchange rate is the exchange rate for immediate delivery. IAS 21 specifies the exchange rate to use in reporting foreign currency transactions when exchangeability between two currencies is temporarily lacking. However, IAS 21 does not specify what an entity is required to do when a lack of exchangeability is not temporary.

72 On 20 April 2021, the IASB published Exposure Draft *Lack of Exchangeability* (the ED), with a 120-day comment period ending on 1 September 2021. The ED proposed amendments to IAS 21 to specify:

(a) when a currency is exchangeable into another currency and, consequently, when it is not (1);

(b) how an entity determines the exchange rate to apply when a currency is not exchangeable (2); and

(c) the information an entity provides when a currency is not exchangeable (3).

73 The project originated from a submission to the IFRS IC which identified the need to add requirements to IAS 21 on how an entity determines whether a currency is exchangeable into another currency and the accounting requirements to apply when it is not.

74 To help the IASB Staff in developing recommendations for the IASB, the IASB Staff are currently asking the IFRS IC members for their views on a possible way forward on one of the proposals in the Exposure Draft—determining the spot exchange rate when exchangeability is lacking.

Comment letter summary (on the IASB ED – Amendment to IAS 21)

75 The IASB received 48 comment letters. In January 2022 the IASB discussed a summary of the feedback received on the ED. IASB members did not make any decisions at that meeting; they provided initial thoughts for the staff to consider in further analysing the feedback.

76 Most respondents agreed with the proposal to require an entity to estimate the spot exchange rate when exchangeability between two currencies is lacking. Some respondents agreed fully with the proposed requirements on how to estimate the spot exchange rate; most asked for further clarification or suggested changes. Some respondents disagreed with or expressed concerns about an entity estimating the spot exchange rate when there is a lack of reliable market data.

77 Regarding the e*stimated rates meeting the conditions in paragraph 19A* respondents' comments include the following:

(a) a few respondents said, when exchangeability is lacking, meeting the conditions in proposed paragraph 19A may be impracticable;

(b) one respondent questioned whether exchangeability would actually be lacking if the conditions were met; and

(c) some respondents suggested revising the proposal to specify that the conditions are objectives an entity aims to meet when estimating the spot exchange rate, rather than requirements to be met.

78 Regarding the *observable exchange rates in paragraph 19B* respondents' comments include the following:

(a) some respondents said the wording in proposed paragraph 19B is unclear;

(b) some respondents commented on the proposal to permit, but not require, an entity to use an observable exchange rate as the estimated spot exchange rate. These respondents suggested:

(i) requiring an entity to use observable exchange rates, including a rebuttable presumption to this effect or requiring the disclosure of reasons for not using an observable exchange rate

(ii) maximising the use of observable exchange rates, similar to the fair value hierarchy in IFRS 13

(iii) specifying a required sequencing of using observable exchange rates. Respondents had differing views on what the sequence should be.

79 Regarding the u*se of unofficial rates* some respondents suggested clarifying that an entity cannot consider unofficial rates in assessing exchangeability between two

currencies but, when exchangeability is lacking, those rates can be used to estimate the spot exchange rate. Some respondents provided information—based on their experience—about parallel market rates in particular jurisdictions.

80 Regarding the *reference rate, example and application guidance* some respondents suggested permitting the use of particular inputs, mechanisms or reference rates in estimating the spot exchange rate. Others requested examples and application guidance on aspects of the proposals, including to support application of paragraphs 19A and 19B and on techniques and inputs to use in estimating the spot exchange rate.

IASB Staff's preliminary analysis and views

81 A summary of the IASB Staff's preliminary analysis and views can be summarised as follows:

(a) Estimated rates meeting the conditions in paragraph 19A: IFRS IC suggested an approach that would require an entity to best reflect, rather than meet, all the conditions in paragraph 19A. This approach would require an entity to make its best efforts to meet the conditions in paragraph 19A but would not require the entity to meet all the conditions;

(b) Observable exchange rates in paragraph 19B: IFRS IC suggested that the IASB continue to permit, but not require, the use of observable exchange rates and further explain the reasons in the BC;

(c) Use of unofficial rates: IFRS IC suggested an approach that would clarify that those rates cannot be used in assessing exchangeability between two currencies but can be used as a starting point for estimating the spot exchange rate when exchangeability is lacking;

(d) Reference rates, examples and application guidance: IFRS IC suggested maintaining the approach in the ED of not identifying particular reference rates to be used in estimating the spot exchange rate and not providing examples and application guidance on estimation techniques and approaches.

Summary of other feedback received by IASB

82 In May 2022, the IASB asked Emerging Economies Group (EEG) members to provide views on the IASB Staff's preliminary suggestions on possible ways forward detailed in paragraph 81.

Estimated rates meeting the conditions in paragraph 19A

83 Regarding the *estimated rates meeting the conditions in paragraph 19A* the EEG members generally agreed with the possible way forward. However, a few EEG members suggested changing 'conditions' to 'indicators' or 'factors' an entity considers. One EEG member said 'best reflect' would not necessarily clarify whether an entity is required to meet all the conditions.

84 Regarding the *observable exchange rates in paragraph 19B* one EEG member agreed with the possible way forward and suggested incorporating some of the content in paragraph BC19 of the Basis for Conclusions on the Exposure Draft into the requirements. One EEG member said it is important to be consistent with the approach in IFRS 13 and another EEG member suggested the amendments prioritise observable exchange rates.

85 Regarding the *use of unofficial rates* EEG members generally agreed with the suggestion. Some EEG members commented on the challenges in referring to unofficial rates in IFRS Accounting Standards.

86 Regarding the reference rates, examples and application guidance EEG members had mixed views on the possible way forward. Some EEG members encouraged the IASB to add examples or application guidance. One EEG member expressed a

preference for examples but understood the IASB's reasons for not providing them.

IASB/IFRS IC Staff's preliminary view (Discussion basis for IFRS IC meeting in September 2022)

87 After considering the feedback summarised above, the IASB/IFRS IC Staff's preliminary views on a possible way forward on one of the proposals in the ED—determining the spot exchange rate when exchangeability is lacking—were as follows:

(a) the conditions in paragraph 19A— IFRS IC proposed amending paragraph 19A so that it no longer requires an entity to meet the conditions listed in that paragraph. Instead, paragraph 19A would state that an entity's objective in estimating the spot exchange rate is to reflect at the measurement date the rate at which an orderly exchange transaction would take place between market participants under prevailing economic conditions;

(b) observable exchange rates in paragraph 19B—IFRS IC proposed to continue to permit, but not require, the use of observable exchange rates and further explain the reasons in the BC;

(c) use of unofficial rates— IFRS IC proposed clarifying that rates from exchange transactions that do not create enforceable rights and obligations can be used as a starting point for estimating the spot exchange rate when exchangeability is lacking; and

(d) reference rates, examples and application guidance— IFRS IC proposed to maintain the approach of not providing or describing detailed estimation requirements or particular estimation techniques. IFRS IC suggested revising Illustrative Example 4 in the ED and adding examples to illustrate how an entity might apply the requirements in estimating the spot exchange rate when exchangeability is lacking.

Questions for the EFRAG CFSS and EFRAG FR TEG members

88 Do you have any comments on the topics presented?

89 Do you wish to further discuss any of the presented issues at a future meeting?