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AUTORITÉ
DES NORMES COMPTABLES

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PDC n°37

Mr Andreas Barckow
Chair of the IASB
7 Westferry Circus, Canary Wharf
London, E14 4HD
United Kingdom

Exposure Draft ED|2021|4—Lack of exchangeability

Dear Andreas,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned Exposure Draft (ED).

We are supportive of the proposed amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Notwithstanding our overall support, we seek clarifications on two points relating to how an entity determines the spot exchange rate when exchangeability is lacking ('Step II' of the proposed amendments). We think those points should warrant additional explanations either in the final amendments or in the Basis for Conclusions on those amendments.

- **The use of 'black market' exchange rates**

Applying the proposed amendments, an entity is expected to conclude that a currency's exchangeability is lacking having observed that the currency is not exchangeable on markets or exchange mechanisms that create enforceable rights and obligations. However, the currency may be exchangeable on other markets or exchange mechanisms that do not create any such rights and obligations—this is the case, for example, of unofficial markets such as 'black markets'. Albeit illegal by nature, exchange rates observed on black markets may provide helpful information about the economic conditions prevailing in the jurisdiction whose currency is not exchangeable. They may also reflect, to some extent, those economic conditions. Accordingly, an entity may wish to use the black market exchange rates to determine the spot exchange rate applying the requirements in paragraphs 19A–19B of the ED.

We understand mixed views exist about whether an entity could do so. In our view, an entity is not permitted to consider black markets to assess whether a currency is exchangeable—ie an entity ignores black markets when it applies 'Step I' of the proposed amendments. However, we think an entity is not prevented from using the exchange rates observable on those markets applying 'Step II' of the proposed amendments. In other words, an entity may use that rate (i) if it were to meet the estimation objective set out in paragraph 19A of the ED or (ii) as input to determine the spot exchange rate. We think the [webcast](#) that accompanied the ED's publication confirms our view—it states that an entity cannot consider an exchange rate that is observed on an 'unofficial market' when assessing exchangeability but '*might use such an observable rate as a starting point to develop its estimate but would need to make adjustments to that rate as necessary to ensure the estimated spot exchange rate meets the specified conditions*'. We recommend the Board clarify this point at least in the Basis for Conclusions on any final amendments to avoid differing readings of the final requirements.

- **Using an observable exchange rate**

Applying paragraph 19B of the proposed amendments, an entity *may* use an observable exchange rate as the estimated spot exchange rate which is either (i) a spot exchange rate for a purpose other than that for which the entity assesses exchangeability or (ii) the first subsequent exchange rate, if any of those rates meet the estimation objective set out in paragraph 19A of the ED. We understand that paragraph 19B specifies a permission. Paragraph BC19 of the ED includes the Board's observations in relation to paragraph 19B. However this paragraph does not, in our view, clearly explain why the Board decided to give a permission rather than to specify a requirement—ie an entity would be required to first assess whether the exchange rates mentioned in paragraph 19B meet the estimation objective set out in paragraph 19A of the ED and if that assessment were to be inconclusive, the entity would then resort to an estimation technique.

We do not disagree with such a permission because it accommodates the wide range of facts and circumstances that entities may face and it may be a reasonable approach from a cost-benefit perspective. However, the lack of explanations about this permission has created confusion among some stakeholders as to how to understand the Board's proposals. Accordingly, we recommend the Board provide further explanations in this respect.

Should you need any further information, please do not hesitate to contact me.

Yours sincerely,



Patrick de Cambourg