

EFRAG – European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
Att.: Mr. Robert Stojek

By e-mail: robert.stojek@efrag.org

31 August 2021

Dear Robert,

**EFRAG's Draft Comment Letter on the IASB's Exposure Draft ED/2021/4
*Lack of Exchangeability***

The Danish Accounting Standards Committee ('DASC') set up by FSR – Danish Auditors ('FSR' or 'FSR – danske revisorer') is pleased to respond to EFRAG's Draft Comment Letter (the 'DCL') on the IASB's Exposure Draft ED/2021/4 Lack of Exchangeability.

DASC discussed the DCL at its meeting 17 August 2021 noting that to the knowledge of DASC members, the issue is not widespread in our jurisdiction.

DASC agrees with EFRAG's DCL. We have provided our views on the questions to constituents included in the DCL.

If you have any questions or comments, please do not hesitate to contact us.

Kind regards,

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DASC Chairman

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DASC International Relations

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APPENDIX

Questions to Constituents

25 In your view, at the measurement date, if an observable exchange rate that applies for a purpose other than the purpose for which the entity assesses exchangeability, meets the conditions in paragraph 19A of the ED, should the use of this observable exchange rate be required rather than permitted?

In DASC's view it should still be permitted rather than required. A disclosure requirement explaining the reason for not applying the observable exchange rate should be considered, provided this additional disclosure would not compromise the entity's situation.

26 What methods do you currently use to adjust exchange rates that lack exchangeability? Which factors do the models consider (inflation, penalties, incentives etc.)?

As mentioned in our cover letter, the issue is not widespread in our jurisdiction and, therefore, DASC members have not come across the issue in practice.

27 Do you think that changing the functional currency of the foreign operation would be a potential solution to avoid the exchangeability problem?

In DASC's view it is worth investigating even though it may require other amendments to IAS 21's provisions on how an entity determines its functional currency.

28 In your view, would you consider additional guidance regarding the estimation process, when the observed rate does not faithfully reflect the prevailing economic conditions, as useful? What kind of additional information would you consider as useful?

In DASC's view, some additional guidance regarding the estimation process is needed among others to secure consistency should an entity be in a situation where the observed rate does not faithfully reflect the prevailing economic conditions.

36 In your view, would you consider additional disclosure requirements, that are not separately specified in the Exposure Draft or already required by other standards, as necessary? The circumstances of a lack of exchangeability are often of a delicate political situation. Should therefore the disclosure requirements allow entities more flexibility (e.g., through an exemption) in regard to providing information on the nature of a lack of exchangeability and information on the inputs used. For example, this would apply when the lack of exchangeability results from a political situation, or when an entity needs to use an unofficial exchange market in order to exchange the local currency? Please explain your answer.

DASC would not consider the need for additional disclosure requirements (apart from the one suggested in [25]), the reason being that if such disclosure requirement runs the risk of severely compromising the entity's operation, it would probably not be included anyway. In DASC's view it would seem unreasonably harsh to enforce such a disclosure requirement if the company's operation is at stake.