



MCA amends Ind AS 21 to address lack of exchangeability of exchange rates

5 June 2025

First Notes on

Financial reporting

- Corporate law updates
- Regulatory and other information
- Disclosures

Sector

All

- Banking and insurance
- Information, communication, entertainment
- Consumer and industrial markets
- Infrastructure and government

Relevant to

All

- Audit committee
- CFO
- Others

Effective

Immediately

- Within the next three months
- Post three months but within six months
- Post six months
- Forthcoming requirement

Background

Under Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, a company on initial recognition, uses a spot exchange rate when translating a foreign currency transaction at the date of the transaction. Additionally, Ind AS 21 requires the use of a spot exchange rate when an entity reports a foreign operation's results and financial position in its financial statements. A spot exchange rate is the exchange rate for immediate delivery.

However, in rare circumstances, it is possible that one currency cannot be exchanged into another. This lack of exchangeability may occur when a government imposes controls on capital imports and exports, or when it limits the volume of foreign currency transactions at an official exchange rate. In some cases, severe economic instability or hyperinflation can disrupt normal currency exchange mechanisms, leading to a lack of exchangeability. Consequently, market participants are unable to buy and sell currency to meet their needs at the official exchange rate and turn instead to unofficial, parallel markets.

Although circumstances in which a currency is not exchangeable might arise relatively less or only few jurisdictions may be affected by this, it can have a significant accounting impact over affected companies.

Ind AS 21 specifies the exchange rate to use in reporting foreign currency transactions when exchangeability between two currencies is temporarily lacking. However, Ind AS 21 did not specify what an entity is required to do when a lack of exchangeability is not temporary.



Amendment to Ind AS 21 – Lack of exchangeability

In this regard, in August 2023, the International Accounting Standards Board (IASB) issued amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates*¹. In order to keep the Ind AS converged with IFRS, the Ministry of Corporate Affairs (MCA) issued similar amendments² (the amendments), to Ind AS 21 vide a notification dated 7 May 2025. These amendments are applicable from 1 April 2025.

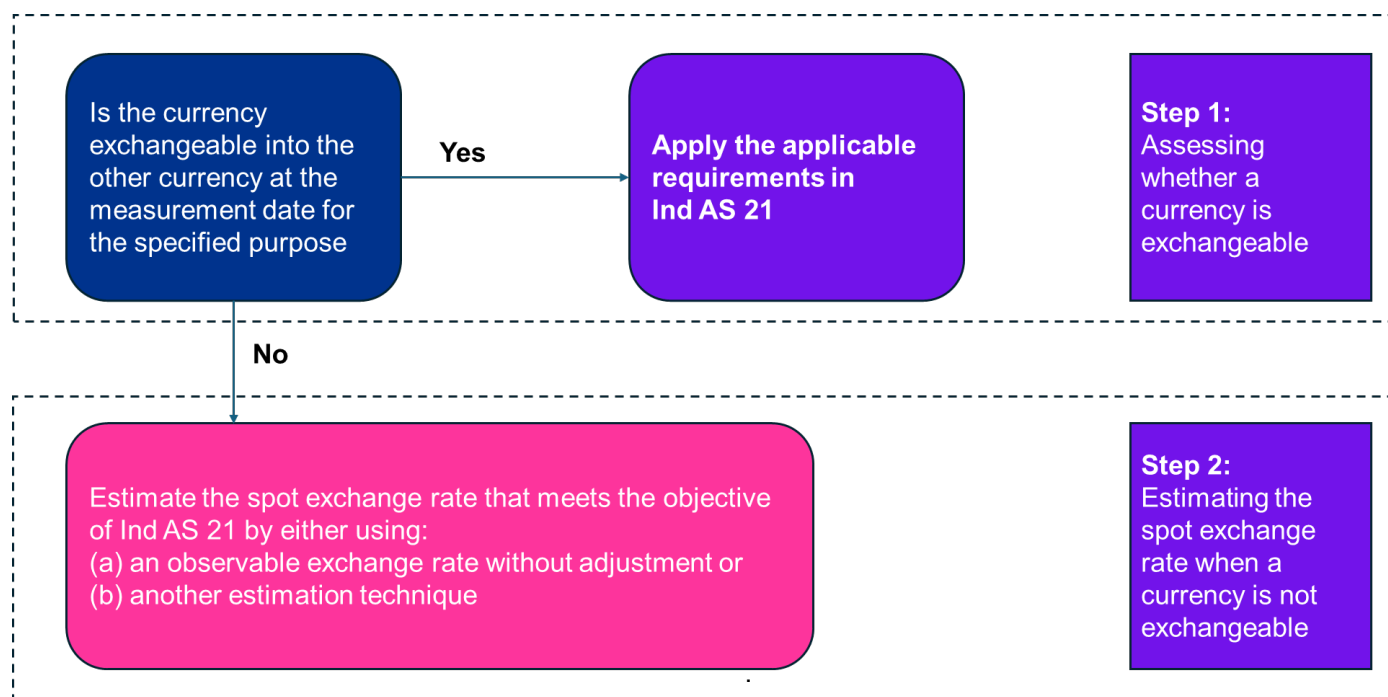
This issue of the First Notes aims to provide an overview of these amendments.

The amendments clarify:

- When a currency is exchangeable into another currency; and
- How a company estimates a spot rate when a currency lacks exchangeability.

Two-step approach

The amendments provide a two-step approach to determine the exchange rate to be applied when translating a foreign currency transaction, as given in the figure below:



(Source: *The Companies (Indian Accounting Standards) Amendment Rules, 2025* issued on 7 May 2025)

1: Amendments to IAS 21, *Lack of Exchangeability* is effective from 1 January 2025

2: Amendments have been issued vide the Companies (Indian Accounting Standards) Amendment Rules, 2025

Amendment to Ind AS 21 – Lack of exchangeability (cont.)

Step 1: Determining whether the currency is exchangeable

A currency (say LC) is exchangeable into another currency (say FC) when a company is able to exchange that currency (LC) for the other currency (FC) at the measurement date and for a specified purpose. Many factors influence the exchangeability of one currency into another currency. To make the definition of 'exchangeability' operational and to help entities apply the definition consistently, the standard specifies when an entity is able to exchange currency for another currency. The key factors to be considered when determining that a currency is exchangeable are given in the figure and explained in detail below :

1. **Normal administrative delay:** While Ind AS 21 defines a spot exchange rate as an exchange rate for immediate delivery, the amendment clarifies that the notion of immediate delivery incorporates a short period of time to meet administrative, legal or regulatory requirements in exchanging currencies. However, what is a normal administrative delay would depend on facts and circumstances.
2. **Ability to obtain the other currency is an essential consideration:** A currency is exchangeable into another currency depending on the entity's ability to obtain the other currency and not on its intention or decision to do so. For example, regardless of whether the entity intends or decides to obtain currency PC, currency LC is exchangeable into currency PC if an entity is able to either exchange LC for PC, or exchange LC for another currency (FC) and then exchange FC for PC.
3. **Specified purpose of obtaining the currency:** In some jurisdictions, for some currencies, different exchange rates might apply for different uses (e.g. different rate for import of capital goods and different rate for import of other goods and services). This could affect an entity's ability to obtain those currencies and thus, lead to lack of exchangeability. Hence, it would be important for an entity to consider the purpose for which it obtains the other currency.
4. **Enforceable rights and obligations:** The amendment clarifies that when assessing whether a currency is exchangeable into another currency, entities consider only markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations. This would depend upon the facts and circumstances.
5. **Ability to obtain more than insignificant amounts:** The amendment considers that the currency is not exchangeable if not more than insignificant amount of currency can be obtained. This approach is similar to the approach in Ind AS 113, *Fair Value Measurement* when the volume or level of activity for an asset or liability has significantly decreased, in which case an entity may depart from using unadjusted observable prices. Similarly, when the activity in the market in which an entity obtains the other currency is so low that the entity is able to obtain no more than an insignificant amount of that other currency, the entity estimates the spot exchange rate as per Ind AS 21 amendment i.e. the entity may depart from using observable exchange rate.



(Source: KPMG in India's analysis, 2025 read with the Companies (Indian Accounting Standards) Amendment Rules, 2025 issued on 7 May 2025)

Amendment to Ind AS 21 – Lack of exchangeability (cont.)

Where it is concluded that a currency is exchangeable into another currency, then the existing principles of Ind AS 21 would be applied for translation of the foreign currency transaction. However, where a currency is not exchangeable, we move to step 2.

Step 2: Estimating the spot exchange rate

When a currency is not exchangeable, a company needs to estimate a spot rate. A company's objective when estimating a spot rate is only that it reflects the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments contain any specific requirements for estimating a spot rate. A company should consider the below for estimating a spot rate:

Use an observable exchange rate without adjustment

Examples include:

- Using an observable exchange rate for another purpose
- Using the first subsequent exchange rate



Use another estimation technique

This includes using rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations and adjust them

(Source: KPMG in India's analysis, 2025 read with the Companies (Indian Accounting Standards) Amendment Rules, 2025 issued on 7 May 2025)

Using an observable exchange rate without adjustment

A company can use an observable rate if that rate satisfies the estimation objective – i.e. the rate reflects the price at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

When making this assessment (i.e. whether the exchange rates reflect the prevailing economic conditions), a company needs to consider the following:

- Whether several observable exchange rates exist
- The purpose for which the currency is exchangeable - e.g. if other currency can be obtained only for limited purposes, such observable rate might not reflect the prevailing economic conditions
- The nature of the exchange rate – a free floating observable exchange rate more likely reflects prevailing economic activities and
- The frequency with which exchange rates are updated - an observable exchange rate that remains unchanged over time is less reflective of current economic conditions than one that is updated daily or more frequently.

Examples of an observable exchange rate include:

- A spot exchange rate for a purpose other than that for which the company is assessing exchangeability.
- The first exchange rate at which a company is able to obtain the other currency for its specified purpose after exchangeability is restored. If a company opts to use this rate as an observable rate, then it would also need to consider the time elapsed between the measurement date and the date at which exchangeability is restored, as well as inflation rates. Shorter the period, more likely that the first subsequent exchange rate will reflect the prevailing economic activities at the measurement date.

Amendment to Ind AS 21 – Lack of exchangeability (cont.)

Step 2: Estimating the spot exchange rate (cont.)

Using another estimation technique

When estimating a spot rate, the other alternative is that a company may use **any** observable exchange rate and adjust it as necessary. This includes using rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations- and adjust that rate, as necessary, to meet the estimation objective.

Disclosures Required

The amendments have introduced new disclosure requirements to help users assess the impact of using an estimated exchange rate on the financial statements. These disclosures might include:

- The nature and financial impacts of the currency not being exchangeable into the other currency;
- The spot exchange rate(s) used;
- The estimation process; and
- The risks to which the company is exposed because of the currency not being exchangeable into the other currency.

While a company is required to consider the level of details to be provided to satisfy the above disclosure requirements, the amendments also provide specific guidance in relation to the minimum disclosures to be provided including when a foreign operation's functional currency is not exchangeable into the presentation currency and vice versa .

Effective date and transition requirements

The amendments are applicable from 1 April 2025. When an entity first applies the new requirements, it is not permitted to restate comparative information. Instead, the entity is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings (if there is lack of exchangeability between the foreign currency and functional currency) or to the reserve for cumulative translation differences (if there is lack of exchangeability between functional currency and presentation currency).



Our comments

Considering that most currencies are either directly or indirectly exchangeable, these amendments are expected to have a limited impact. For instance, where companies enter into transactions with entities in hyperinflationary economies.

Some of the considerations include:

- **Flexibility in the use of techniques for estimating spot exchange rates:** The amendments provide flexibility to entities regarding techniques that can be used to estimate spot exchange rate i.e. they could either use an observable exchange rate without adjustment, or use another estimation technique. The process to estimate a spot exchange rate can be complicated and would depend on entity-specific and jurisdiction-specific facts and circumstances. This flexibility helps entities use their judgement to form the best estimate of that spot exchange rate. Additionally, the amendments include considerations including examples to simplify estimation of spot rate. It also provides non-exhaustive list of factors to help entities determine whether the observable exchange rate reflects the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.
- **Significant judgements and disclosures:** While the amendments provide helpful guidance to reduce diversity in practice, companies would need to exercise significant degree of judgement while estimating spot exchange rates. These judgements including estimation techniques (where such techniques are used) would need to be disclosed in the financial statements as per Ind AS 1, *Presentation of Financial Statements*. Some of the judgements that need to be disclosed are as follows:
 - **Administrative delay:** For instance, the amendments permit a normal administrative delay in obtaining a foreign currency when determining the exchangeability of an exchange rate. However, the amendments do not define what is considered as normal administrative delay. Companies would need to consider particular facts and circumstances of the jurisdiction where the assessment is being made.
 - **Whether a currency meets economic conditions:** When determining an observable rate as part of Step 2, companies need to assess whether the rate reflects the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. Therefore, this assessment could involve certain degree of estimation.
 - **Using another estimation technique:** Under Step 2, companies are required to estimate a spot rate - this would be done by either considering an observable rate without adjustment or using another estimation technique. This estimate involves making adjustments to observable rates. An example is where there is a temporary lack of exchangeability of currencies, companies may consider the first subsequent exchange rate (once currencies are available) and make adjustments to that.
- **Foreign operations:** Ind AS 21 prescribes the principles for translating the results and financial results of a foreign operation. These principles are applied to the net assets or net liabilities of a foreign operation (and not to individual assets and liabilities). In the context of the amendments, it is noted that:
 - Entities should assess exchangeability from the perspective of a transaction that would result in realising or settling its net assets or net liabilities (or net investment in a foreign operation)
 - Where entities experience a delay in remitting dividends, such delay would not necessarily result in a conclusion that the currency lacks exchangeability. Such delays should also be assessed for a normal administrative delay.
 - An entity should consider its ability to realise its net assets (or net investment in a foreign operation) in a single transaction - and not over time - even though an entity might often be unable to realise its net assets in a single transaction. In accordance with the amendments, a currency would be exchangeable into another currency even if an entity is unable to obtain the entire amount - but is able to obtain more than an insignificant amount - of the other currency required to realise its net assets or net investment in a foreign operation.
 - The amendments also prescribe additional disclosure requirements where these amendments have been applied while translating the foreign operation's functional currency into the entity's presentation currency or vice versa. These disclosures include the details and nature of the foreign operation, its summarised financial information and certain contractual arrangements.

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Missed an issue of Accounting and Auditing Update or First Notes?



Issue no. 106 – May 2025

The topics covered in this issue are:

- Share based payments vs shareholder transactions
- Benchmarking trends- purchase consideration paid in business combinations
- Regulatory updates

To access the publication, please click [here](#)



Governance norms for High Value Debt Listed entities (HVDLEs)

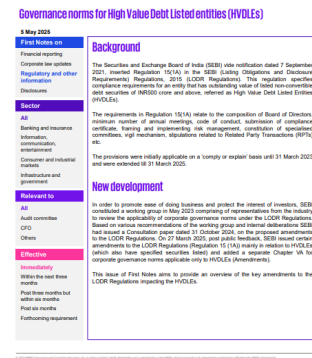
8 May 2025

The Securities and Exchange Board of India (SEBI) vide notification dated 7 September 2021, inserted Regulation 15(1A) in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations). This regulation specifies compliance requirements for an entity that has outstanding value of listed non-convertible debt securities of INR500 crore and above, referred as High Value Debt Listed Entities (HVDLEs).

The requirements in Regulation 15(1A) relate to the composition of Board of Directors, minimum number of annual meetings, code of conduct, submission of compliance certificate, framing and implementing risk management, constitution of specialised committees, vigil mechanism, stipulations related to Related Party Transactions (RPTs) etc.

On 27 March 2025, post public feedback, SEBI issued certain amendments to the LODR Regulations (Regulation 15 (1A)) mainly in relation to HVDLEs (which also have specified securities listed) and added a separate Chapter VA for corporate governance norms applicable only to HVDLEs (Amendments).

This issue of First Notes aims to provide an overview of the key amendments to the LODR Regulations impacting the HVDLEs



KPMG in India – Voices on Reporting quarterly updates webinar

Voices on Reporting – Quarter updates webinar (for the quarter ended 31 March 2025) provides a summary of key updates from the Ministry of Corporate Affairs (MCA), Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), National Financial Reporting Authority (NFRA) and the Institute of Chartered Accountants of India (ICAI).

To access the webinar, please click [here](#)



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