KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

Tel +44 (0) 20 7694 8871
Chris.Spall@kpmgifrg.com

Ms Sue Lloyd
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Our ref CS/288

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Dear Ms Lloyd

Tentative agenda decision: *Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21)*

We appreciate the opportunity to comment on the above tentative agenda decision (TAD) of the IFRS Interpretations Committee (the Committee). We have consulted with, and this letter represents the views of, the KPMG network.

The TAD acknowledges the practical inability to obtain foreign currency through official exchange mechanisms which entities with operations in Venezuela face. The TAD also appears to suggest that, in these circumstances, those entities may use an appropriate estimated exchange rate (rather than an official exchange rate) to translate amounts when applying IAS 21. We support such a conclusion but believe that the TAD should state this explicitly.

Furthermore, we do not agree with the Committee's tentative conclusion that IAS 21 provides an adequate basis for an entity to assess whether it uses the official exchange rate for translation purposes when the foreign operation's functional currency is subject to a long-term lack of exchangeability with other currencies (circumstance (b) in the TAD). This tentative conclusion conflicts with the Committee's previous observation in November 2014[1], with which we agree, that "a longer-term lack of exchangeability is not addressed by the guidance in IAS 21, and so it is not entirely clear how IAS 21 applies in such situations." In our view, the new reasoning presented in the TAD is not robust and thus does not solve this problem:

— The TAD asserts that the closing rate "is the rate to which an entity would have access at the end of the reporting period through a legal exchange rate mechanism." But the

[1] IFRIC Update – November 2014: IAS 21 *The Effects of Changes in Foreign Exchange Rates – Foreign exchange restrictions and hyperinflation*

only rates which an entity could access through a legal exchange rate mechanism are official exchange rates (circumstance (a) in the TAD).

— The TAD then says "an entity assesses whether the official exchange rate meets the definition of the closing rate – i.e. is it the rate to which the entity would have access at the end of the reporting period?" This question uses a different description of closing rate since it omits the qualification of "through a legal exchange rate mechanism."

  – Although it is not made clear, we assume that the Committee's intention is that an entity may conclude that the answer to this question is no, based on the practical inability to access foreign currency legally (circumstances (b) and (c) in the TAD). But in this case, the entity is still faced with the dilemma that there is no alternative rate that can be accessed in practice through a legal exchange rate mechanism – i.e. on this basis, there appears to be no rate that meets the Committee's suggested elaboration of the definition of closing rate.

  – On the other hand, it appears that an entity might answer yes to the question on the basis that the closing rate is the rate to which it "would have access... through a legal exchange mechanism" – i.e. it would have access but for its inability in practice to actually obtain foreign currency through that mechanism.

The spot and closing rates are defined in IAS 21 as the rate of exchange for immediate delivery on the relevant measurement date and this is supported by guidance indicating how to choose between several available rates based on the rate that could have been used at that date. The fundamental problem is that these principles presume that currency is exchangeable at the measurement date and the standard does not address how these concepts are operationalised if there is a continuing lack of exchangeability. We do not believe that this gap can be addressed by an agenda decision. Therefore, we recommend that the Committee:

— Amend the TAD to state that it is not clear in the circumstances described how IAS 21 should be applied to determine the closing rate and accordingly some entities may use an appropriate estimated rate. This will provide immediate support for entities with Venezuelan operations who are trying to report what they consider to be the most useful information they can.

— Reconsider developing an interpretation to provide a more robust long-term solution to this lack of clarity in IAS 21. Such an interpretation might also include guidance on determining whether there is a lack of exchangeability, particularly in the context of currencies subject to legal exchange controls, and on determining an estimated exchange rate.

Please contact Chris Spall on +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited
cc Reinhard Dotzlaw, KPMG IFRG Limited