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**Reference: Exposure Draft – ED/2021/4 – Lack of Exchangeability**

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)<sup>1</sup> welcomes the opportunity to respond to the Exposure Draft – ED/2021/4 – Lack of Exchangeability.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

If you have any questions about our comments, please do not hesitate to contact us at [operacoes@cpc.org.br](mailto:operacoes@cpc.org.br).

Yours sincerely,



Rogério Lopes Mota  
Chair of International Affairs  
Comitê de Pronunciamentos Contábeis (CPC)

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<sup>1</sup>The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



### **Question 1—Assessing exchangeability between two currencies**

*Paragraph 8 of the draft amendments to IAS 21 specifies that a currency is exchangeable into another currency when an entity is able to exchange that currency for the other currency. Paragraphs A2–A11 of [draft] Appendix A to IAS 21 set out factors an entity considers in assessing exchangeability and specify how those factors affect the assessment.*

*Paragraphs BC4–BC16 of the Basis for Conclusions explain the Board’s rationale for this proposal.*

*Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.*

#### **CPC’s response:**

CPC agrees with this proposal, except for the statement in the paragraph A2 that says “If an entity is able to obtain no more than an insignificant amount of the other currency, a currency is not exchangeable into the other currency”. Similarly, in paragraph A11 this limit of exchangeability appears again only for insignificant cases. We believe that this statement is not clear, or in the case it would be insignificant, it should be reviewed or explained. Furthermore, it can cause situations in which, even if there are limits for currency exchange, as long as they are not insignificant, it will not configure the existing lack of exchangeability.

### **Question 2—Determining the spot exchange rate when exchangeability is lacking**

*Paragraphs 19A–19C and paragraphs A12–A15 of the draft amendments to IAS 21 specify how an entity determines the spot exchange rate when a currency is not exchangeable into another currency.*

*Paragraphs BC17–BC20 of the Basis for Conclusions explain the Board’s rationale for this proposal.*

*Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.*

#### **CPC’s response:**

CPC disagrees with this proposal.

In CPC’s view, measuring the estimated rate will not necessarily ensure that the assumptions in paragraph 19A will be met. The similarity with IFRS 13 is not applicable in this case, because while IFRS 13 deals with an estimate with low liquidity, the cases of lack of interchangeability are related to the prohibition of exchange, that is, lack of liquidity.

Additionally, the measurement of the estimated rate could have a hierarchy, such as the measurement at fair value. Although the facts and circumstances of each country are different, prioritizing observable data in an active market would bring greater reliability in rate estimates.



### **Question 3—Disclosure**

*Paragraphs 57A–57B and A16–A18 of the draft amendments to IAS 21 require an entity to disclose information that would enable users of its financial statements to understand how a lack of exchangeability between two currencies affects, or is expected to affect, its financial performance, financial position and cash flows.*

*Paragraphs BC21–BC23 of the Basis for Conclusions explain the Board’s rationale for this proposal.*

*Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.*

#### **CPC’s response:**

CPC agrees with this proposal. Disclosure covers the facts and circumstances that determined the lack of exchangeability, as well as the rates that were used, how they were defined, and the risks involved.

### **Question 4—Transition**

*Paragraphs 60L–60M of the draft amendments to IAS 21 require an entity to apply the amendments from the date of initial application, and permit earlier application.*

*Paragraphs BC24–BC27 of the Basis for Conclusions explain the Board’s rationale for this proposal.*

*Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.*

#### **CPC’s response:**

CPC agrees with this proposal. From the definition of the transition date (beginning of the change period), assets and liabilities will be remeasured with the application of what is being proposed, with an effect on the Equity (retained earnings).