

Accounting Standards Board of Japan (ASBJ)

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Ms. Sue Lloyd

IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building 7 Westferry Circus
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United Kingdom

Comments on the Tentative Agenda Decision Relating to IAS 21 *The Effects of Changes in Foreign Exchange Rates* — Determination of the exchange rate when there is a long-term lack of exchangeability

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (the “Committee”)’s tentative agenda decision relating to IAS 21 *The Effects of Changes in Foreign Exchange Rates* — Determination of the exchange rate when there is a long-term lack of exchangeability, proposed in the June 2018 IFRIC Update.
2. We believe both short-term measures and mid- to long-term measures are needed to appropriately address this issue.

Short-term measures

3. In the tentative agenda decision, the Committee discusses the exchange rate an entity should use to translate the results and financial position of a foreign operation into its presentation currency in the following circumstances:
 - (a) the exchangeability of a currency with other currencies is administered by jurisdictional authorities and they provide legal exchange mechanisms including setting an official exchange rate and mandating to use it.

- (b) the foreign operations are subject to a long-term lack of exchangeability with other currencies through the legal exchange mechanisms.
 - (c) the long-term lack of exchangeability with other currencies has resulted in the foreign operation effectively being unable to access foreign currencies.
4. We agree that the special circumstances described above exist in Venezuela, and we observe that, in some cases, the official exchange rates are used to translate the results and financial position of foreign operations in Venezuela into their presentation currencies. We are aware that some question whether it is appropriate to use the official exchange rate as the closing rate, defined in paragraph 8 of IAS 21.
 5. In this context, considering the current special circumstances in Venezuela, we support the Committee's tentative agenda decision that proposes an entity assess whether it is appropriate to use the official exchange rate as the closing rate for the special circumstances in Venezuela.
 6. On the other hand, we note that, although paragraph 26 of IAS 21 provides guidance on the exchange rate to be used when exchangeability between currencies is lacking temporarily, there is no requirement in IAS 21 for the exchange rate to be used when there is a long-term lack of exchangeability.
 7. Therefore, we believe an entity should disclose the following items in full and explain them to the users of financial statements when determining the exchange rate for the entity's Venezuelan operations:
 - ✓ the exchange rate used;
 - ✓ why the official exchange rate is appropriate as the closing rate or the exchange rate at the date of the transaction (or why it is inappropriate); and
 - ✓ the method the entity uses to estimate the exchange rate when the entity concludes that the official exchange rate is inappropriate as the closing rate.

Mid- to long-term measures

8. As mentioned above, our understanding is that the tentative agenda decision relates to the special circumstances observed in Venezuela. However, in order to fundamentally resolve this issue, we think the IASB should have provided guidance

in IAS 21 relating to the exchange rate to be used when there is a long-term lack of exchangeability.

9. Accordingly, in the mid- to long-term, we believe the IASB should amend IAS 21 as a narrow scope amendment to prescribe how to determine the closing rate or the exchange rate at the date of the transaction, when an entity is subject to a long-term lack of exchangeability. Furthermore, we believe the IASB will need to clarify when a long-term lack of exchangeability exists.
10. We would like to emphasise that an entity should disclose the following items in full and explain them to the users of financial statements, unless certain conditions, such as the exchange rate used is obvious, are met:
 - ✓ the exchange rate used;
 - ✓ why the entity considers that rate is appropriate (or inappropriate) as the closing rate or the exchange rate at the date of the transaction; and
 - ✓ (if the exchange rate is estimated) how the exchange rate is estimated.
11. We hope our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yukio Ono', with a stylized flourish at the end.

Yukio Ono
Chairman
Accounting Standards Board of Japan