

## **PROPOSED AMENDMENTS TO IPSAS 4 AND IPSAS 33**

### **Part 1: Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates***

Paragraphs 10 and 30 are amended. Paragraphs 10A-10B, 22A, and their related headings, paragraphs 66A-66B, 71K-71L, and Appendix B are added. New text is underlined and deleted text is struck through. For ease of reading, text in Appendix B has not been underlined.

Illustrative Examples in paragraphs IE20-IE37 IPSAS 4 have also been added. For ease of reading, the new text is not underlined.

#### **Definitions**

**10. The following terms are used in this Standard with the meanings specified:**

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**A currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.**

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#### **Elaboration on the definitions**

##### *Exchangeable (paragraphs B2–B10)*

**10A. An entity assesses whether a currency is exchangeable into another currency:**

**(a) At a measurement date; and**

**(b) For a specified purpose.**

**10B. If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.**

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#### **Estimating the spot exchange rate when a currency is not exchangeable (paragraphs B11–B17)**

**22A. An entity shall estimate the spot exchange rate at a measurement date when a currency is not exchangeable into another currency (as described in paragraphs 10, 10A–10B and B2–B10) at that date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.**

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#### **Reporting at Subsequent Reporting Dates**

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**30. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. ~~If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.~~**

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## Disclosure

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- 66A. When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency (see paragraph 22A), the entity shall disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. To achieve this objective, an entity shall disclose information about:
- (a) The nature and financial effects of the currency not being exchangeable into the other currency;
  - (b) The spot exchange rate(s) used;
  - (c) The estimation process; and
  - (d) The risks to which the entity is exposed because of the currency not being exchangeable into the other currency.
- 66B. Paragraphs B18–B20 specify how an entity applies paragraph 66A.

## Effective Date and Transition

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- 71K. [Annual Improvements to IPSAS Accounting Standards – Volume 10], issued in [MMMM YYYY], amended paragraphs 10 and 30 and added paragraphs 10A-10B, 22A, and their related headings, paragraphs 66A-66B, 71K-71L, and Appendix B. An entity shall apply those amendments for annual reporting periods beginning on or after January 1, [YYYY]. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact. The date of initial application is the beginning of the annual reporting period in which an entity first applies those amendments.
- 71L. In applying [Annual Improvements to IPSAS Accounting Standards – Volume 10], an entity shall not restate comparative information. Instead:
- (a) When the entity reports foreign currency transactions in its functional currency, and, at the date of initial application, concludes that its functional currency is not exchangeable into the foreign currency or, if applicable, concludes that the foreign currency is not exchangeable into its functional currency, the entity shall, at the date of initial application:
    - (i) Translate affected foreign currency monetary items, and non-monetary items measured at fair value or current operational value in a foreign currency, using the estimated spot exchange rate at that date; and
    - (ii) Recognize any effect of initially applying the amendments as an adjustment to the opening balance of retained earnings.
  - (b) When the entity uses a presentation currency other than its functional currency, or translates the results and financial position of a foreign operation, and, at the date of initial application, concludes that its functional currency (or the foreign operation's functional currency) is not exchangeable into its presentation currency or, if applicable, concludes that its presentation currency is not exchangeable into its functional currency (or the foreign operation's functional currency), the entity shall, at the date of initial application:
    - (i) Translate affected assets and liabilities using the estimated spot exchange rate at that date;

- (ii) Translate affected net assets/equity items using the estimated spot exchange rate at that date if the entity's functional currency is hyperinflationary; and
- (iii) Recognize any effect of initially applying the amendments as an adjustment to the cumulative amount of translation differences—accumulated in a separate component of net assets/equity.

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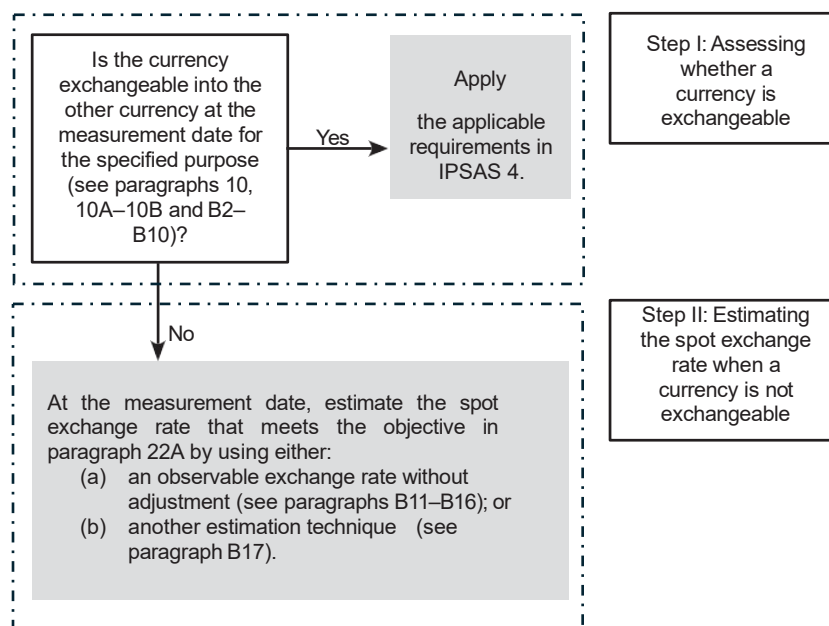
*[As noted on page 1, the entirety of Appendix B is new. For ease of reading, this new text is not underlined.]*

## Application Guidance on Exchangeability

*This appendix is an integral part of the Standard.*

### Exchangeability

- B1. The purpose of the following diagram is to help entities assess whether a currency is exchangeable and estimate the spot exchange rate when a currency is not exchangeable.



### Step I: Assessing whether a currency is exchangeable (paragraphs 10 and 10A–10B)

- B2. Paragraphs B3–B10 set out application guidance to help an entity assess whether a currency is exchangeable into another currency. An entity might determine that a currency is not exchangeable into another currency, even though that other currency might be exchangeable in the other direction. For example, an entity might determine that currency PC is not exchangeable into currency LC, even though currency LC is exchangeable into currency PC.

### Time frame

- B3. Paragraph 10 defines a spot exchange rate as the exchange rate for immediate delivery. However, an exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public holidays. A normal administrative delay in obtaining the other currency does not preclude a currency from being exchangeable into that other currency. What constitutes a normal administrative delay depends on facts and circumstances.

### Ability to obtain the other currency

- B4. In assessing whether a currency is exchangeable into another currency, an entity shall consider its ability to obtain the other currency, rather than its intention or decision to do so. Subject to the other requirements in

paragraphs B2–B10, a currency is exchangeable into another currency if an entity is able to obtain the other currency—either directly or indirectly—even if it intends or decides not to do so. For example, subject to the other requirements in paragraphs B2–B10, regardless of whether the entity intends or decides to obtain 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.

**Markets or exchange mechanisms**

- B5. In assessing whether a currency is exchangeable into another currency, an entity shall consider only markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations. Enforceability is a matter of law. Whether an exchange transaction in a market or exchange mechanism would create enforceable rights and obligations depends on facts and circumstances.

**Purpose of obtaining the other currency**

- B6. Different exchange rates might be available for different uses of a currency. For example, a jurisdiction facing pressure on its balance of payments might wish to deter capital remittances (such as dividend payments) to other jurisdictions but encourage imports of specific goods from those jurisdictions. In such circumstances, the relevant authorities might:
- (a) Set a preferential exchange rate for imports of those goods and a 'penalty' exchange rate for capital remittances to other jurisdictions, thus resulting in different exchange rates applying to different exchange transactions; or
  - (b) Make the other currency available only to pay for imports of those goods and not for capital remittances to other jurisdictions.
- B7. Accordingly, whether a currency is exchangeable into another currency could depend on the purpose for which the entity obtains (or hypothetically might need to obtain) the other currency. In assessing exchangeability:
- (a) When an entity reports foreign currency transactions in its functional currency (see paragraphs 23–39), the entity shall assume its purpose in obtaining the other currency is to realize or settle individual foreign currency transactions, assets or liabilities.
  - (b) When an entity uses a presentation currency other than its functional currency (see paragraphs 43–49), the entity shall assume its purpose in obtaining the other currency is to realize or settle its net assets or net liabilities.
  - (c) When an entity translates the results and financial position of a foreign operation into the presentation currency (see paragraphs 50–56), the entity shall assume its purpose in obtaining the other currency is to realize or settle its net investment in the foreign operation.
- B8. An entity's net assets or net investment in a foreign operation might be realized by, for example:
- (a) the distribution of a financial return to the entity's owners;
  - (b) the receipt of a financial return from the entity's foreign operation; or
  - (c) the recovery of the investment by the entity or the entity's owners, such as through disposal of the investment.
- B9. An entity shall assess whether a currency is exchangeable into another currency separately for each purpose specified in paragraph B7. For example, an entity shall assess exchangeability for the purpose of reporting

foreign currency transactions in its functional currency (see paragraph B7(a)) separately from exchangeability for the purpose of translating the results and financial position of a foreign operation (see paragraph B7(c)).

**Ability to obtain only limited amounts of the other currency**

- B10. A currency is not exchangeable into another currency if, for a purpose specified in paragraph B7, an entity is able to obtain no more than an insignificant amount of the other currency. An entity shall assess the significance of the amount of the other currency it is able to obtain for a specified purpose by comparing that amount with the total amount of the other currency required for that purpose. For example, an entity with a functional currency of LC has liabilities denominated in currency FC. The entity assesses whether the total amount of FC it can obtain for the purpose of settling those liabilities is no more than an insignificant amount compared with the aggregated amount (the sum) of its liability balances denominated in FC.

**Step II: Estimating the spot exchange rate when a currency is not exchangeable (paragraph 22A)**

- B11. This Standard does not specify how an entity estimates the spot exchange rate to meet the objective in paragraph 22A. An entity can use an observable exchange rate without adjustment (see paragraphs B12–B16) or another estimation technique (see paragraph B17).

**Using an observable exchange rate without adjustment**

- B12. In estimating the spot exchange rate as required by paragraph 22A, an entity may use an observable exchange rate without adjustment if that observable exchange rate meets the objective in paragraph 22A. Examples of an observable exchange rate include:
- (a) A spot exchange rate for a purpose other than that for which an entity assesses exchangeability (see paragraphs B13–B14); and
  - (b) The first exchange rate at which an entity is able to obtain the other currency for the specified purpose after exchangeability of the currency is restored (first subsequent exchange rate) (see paragraphs B15–B16).

*Using an observable exchange rate for another purpose*

- B13. A currency that is not exchangeable into another currency for one purpose might be exchangeable into that currency for another purpose. For example, an entity might be able to obtain a currency to import specific goods but not to pay dividends. In such situations, the entity might conclude that an observable exchange rate for another purpose meets the objective in paragraph 22A. If the rate meets the objective in paragraph 22A, an entity may use that rate as the estimated spot exchange rate.
- B14. In assessing whether such an observable exchange rate meets the objective in paragraph 22A, an entity shall consider, among other factors:
- (a) *Whether several observable exchange rates exist*—the existence of more than one observable exchange rate might indicate that exchange rates are set to encourage, or deter, entities from obtaining the other currency for particular purposes. These observable exchange rates might include an ‘incentive’ or ‘penalty’ and therefore might not reflect the prevailing economic conditions;
  - (b) *The purpose for which the currency is exchangeable*—if an entity is able to obtain the other currency only for limited purposes (such as to import emergency supplies), the observable exchange rate might not reflect the prevailing economic conditions;

- (c) *The nature of the exchange rate*—a free-floating observable exchange rate is more likely to reflect the prevailing economic conditions than an exchange rate set through regular interventions by the relevant authorities; and
- (d) *The frequency with which exchange rates are updated*—an observable exchange rate unchanged over time is less likely to reflect the prevailing economic conditions than an observable exchange rate that is updated on a daily basis (or even more frequently).

*Using the first subsequent exchange rate*

- B15. A currency that is not exchangeable into another currency at the measurement date for a specified purpose might subsequently become exchangeable into that currency for that purpose. In such situations, an entity might conclude that the first subsequent exchange rate meets the objective in paragraph 22A. If the rate meets the objective in paragraph 22A, an entity may use that rate as the estimated spot exchange rate.
- B16. In assessing whether the first subsequent exchange rate meets the objective in paragraph 22A, an entity shall consider, among other factors:
  - (a) *The time between the measurement date and the date at which exchangeability is restored*—the shorter this period, the more likely the first subsequent exchange rate will reflect the prevailing economic conditions; and
  - (b) *Inflation rates*—when an economy is subject to high inflation, including when an economy is hyperinflationary (as specified in IPSAS 10, *Financial Reporting in Hyperinflationary Economies*), prices often change quickly, perhaps several times a day. Accordingly, the first subsequent exchange rate for a currency of such an economy might not reflect the prevailing economic conditions.

**Using another estimation technique**

- B17. An entity using another estimation technique may use any observable exchange rate—including 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 objective in paragraph 22A.

**Disclosure when a currency is not exchangeable**

- B18. An entity shall consider how much detail is necessary to satisfy the disclosure objective in paragraph 66A. An entity shall disclose the information specified in paragraphs B19–B20 and any additional information necessary to meet the disclosure objective in paragraph 66A.
- B19. In applying paragraph 66A, an entity shall disclose:
  - (a) The currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;
  - (b) A description of affected transactions;
  - (c) The carrying amount of affected assets and liabilities;
  - (d) The spot exchange rates used and whether those rates are:
    - (i) Observable exchange rates without adjustment (see paragraphs B12–B16); or
    - (ii) Spot exchange rates estimated using another estimation technique (see paragraph B17);
  - (e) A description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs and assumptions used in that estimation technique; and

- (f) Qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

B20. When a foreign operation's functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation's functional currency, an entity shall also disclose:

- (a) The name of the foreign operation; whether the foreign operation is a subsidiary, joint operation, joint venture, associate or branch; and its principal place of business;
- (b) Summarized financial information about the foreign operation; and
- (c) The nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.



## Illustrative Examples

*[As noted on page 1, paragraphs IE20-IE37 are new. For ease of reading, this new text is not underlined.]*

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### Exchangeability

- IE20. These examples illustrate how an entity might apply some of the requirements on exchangeability in IPSAS 4 in hypothetical situations based on the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, fact patterns in the examples are simplified, and an entity would need to evaluate all relevant facts and circumstances when applying IPSAS 4. The examples do not illustrate all the requirements in IPSAS 4, nor do they create additional requirements.
- IE21. Examples 5–7 illustrate how an entity assesses whether a currency is exchangeable (Step I as set out in paragraphs 10, 10A–10B and B2–B10). Examples 8–9 illustrate how an entity estimates the spot exchange rate when a currency is not exchangeable (Step II as set out in paragraphs 22A and B11–B17). In all five examples:
- (a) Entity X's functional and presentation currency is PC. Entity X prepares consolidated financial statements; and
  - (b) Entity X has a subsidiary, Entity Y, that is a foreign operation. Entity Y's functional currency is LC, the currency of the jurisdiction in which Entity Y operates. The relevant authority administers the exchangeability of LC for other currencies.

### **Step I: Assessing whether a currency is exchangeable (paragraphs 10, 10A–10B and B2–B10)**

#### **Example 5—Time frame**

- IE22. The relevant authority in Entity Y's jurisdiction makes PC available to entities in exchange for LC only after completion of an administrative process. The authority requires entities wishing to obtain PC to explain how they intend to use PC when submitting a request for PC. In usual circumstances, an entity obtains PC after N days—that is, N days is the time the authority needs, under its administrative process, to perform checks and provide PC.
- IE23. Entity X considers N days to be a normal administrative delay applying to a transaction to exchange LC for PC through this exchange mechanism. Subject to the other requirements in paragraphs B2–B10, Entity X considers LC to be exchangeable into PC if Entity X is able to obtain PC within N days of requesting it.

#### **Example 6—Markets or exchange mechanisms**

- IE24. The relevant authority in Entity Y's jurisdiction is unable to meet demand for PC and temporarily stops making PC available through the exchange mechanism it administers. In the absence of this exchange mechanism, individual resellers settle transactions to exchange LC for PC at an exchange rate that is not set by the authority. These exchange transactions do not create enforceable rights and obligations, and no other markets or exchange mechanisms exist in which a transaction to exchange LC for PC would create such rights and obligations.
- IE25. In assessing whether LC is exchangeable into PC, Entity X considers only markets or exchange mechanisms in which a transaction to exchange LC for PC would create enforceable rights and obligations. Entity X concludes that LC is not exchangeable into PC because the exchange transactions with individual resellers do not create enforceable rights and obligations, and no other markets or exchange mechanisms exist in which a transaction to exchange LC for PC would create such rights and obligations.

**Example 7—Purpose of obtaining the other currency**

- IE26. The relevant authority in Entity Y's jurisdiction prevents entities from obtaining PC for purposes other than importing food and medicine.
- IE27. In translating the results and financial position of Entity Y, Entity X assesses whether it is able to obtain PC for the purpose of realizing its net investment in Entity Y. Because Entity X is prevented from obtaining PC for this purpose, Entity X concludes that LC is not exchangeable into PC. Entity X's ability to obtain PC for the purpose of importing food and medicine is irrelevant to the assessment.

**Step II: Estimating the spot exchange rate when a currency is not exchangeable (paragraphs 22A and B11–B16)**

**Example 8—Using an observable exchange rate for another purpose (paragraphs B11–B14)**

*Fact pattern*

- IE28. At December 31, 20X1 the relevant authority in Entity Y's jurisdiction prevents entities from obtaining PC for the purpose of realizing a net investment in an entity operating in that jurisdiction. Other than that restriction, entities are able to obtain PC and the LC:PC exchange rate is free-floating. Only one exchange rate applies to transactions for exchanges of LC for PC; it is updated several times a day.
- IE29. At the measurement date of December 31, 20X1, Entity X is unable to obtain PC to realize its net investment in Entity Y. Therefore, Entity X concludes that LC is not exchangeable into PC.

*Estimating the spot exchange rate*

- IE30. Because Entity X concludes that LC is not exchangeable into PC, Entity X is required to estimate the spot exchange rate that meets the objective in paragraph 22A.
- IE31. Applying paragraphs B11–B14, Entity X considers whether it might use the observable LC to PC exchange rate for the purpose of realizing a net investment in an entity. To do so, it assesses whether that observable exchange rate meets the objective in paragraph 22A and considers:
- (a) *Whether several exchange rates exist*—only one observable exchange rate exists between LC and PC;
  - (b) *The purpose for which the currency is exchangeable*—Entity X is able to obtain PC for any transaction other than a transaction that would result in the realization of its net investment in Entity Y;
  - (c) *The nature of the exchange rate*—the observable exchange rate is free-floating; and
  - (d) *The frequency with which exchange rates are updated*—the observable exchange rate is updated several times a day.
- IE32. Considering these factors, Entity X determines that the observable LC to PC exchange rate meets the objective in paragraph 22A. Therefore, Entity X may use that observable exchange rate as the estimated spot exchange rate when it translates the results and financial position of Entity Y.

**Example 9—Using the first subsequent exchange rate (paragraphs B11–B12 and B15–B16)**

*Fact pattern*

- IE33. At December 31, 20X1 the jurisdiction in which Entity Y operates is subject to hyperinflation. The relevant authority in Entity Y's jurisdiction prevents entities from obtaining PC for the purpose of realizing a net

investment in an entity operating in that jurisdiction. However, from April 30, 20X2, the authority allows entities to obtain PC for that purpose.

- IE34. At the measurement date of December 31, 20X1 Entity X is unable to obtain PC to realize its net investment in Entity Y. Therefore, Entity X concludes that LC is not exchangeable into PC.

*Estimating the spot exchange rate*

- IE35. Because Entity X concludes that LC is not exchangeable into PC, Entity X is required to estimate the spot exchange rate that meets the objective in paragraph 22A.
- IE36. Applying paragraphs B11–B12 and B15–B16, Entity X considers whether it might use the first exchange rate at which it is able to obtain the other currency after exchangeability of the currency is restored (first subsequent exchange rate). To do so, it assesses whether that first subsequent exchange rate meets the objective in paragraph 22A and considers:
- (a) *The time between the measurement date and the date at which exchangeability is restored*—exchangeability is restored four months after the measurement date; and
  - (b) *Inflation rate*—the jurisdiction in which Entity Y operates is subject to hyperinflation.
- IE37. Considering these factors, Entity X determines that the first subsequent exchange rate does not reflect the prevailing economic conditions at the measurement date. Therefore, the first subsequent exchange rate does not meet the objective in paragraph 22A for the purpose of realizing Entity X's net investment in Entity Y. However, Entity X could adjust that rate, as necessary, to estimate a rate that meets the objective in paragraph 22A for realizing its net investment in Entity Y.

**Part 2: Amendments to *IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards***

Paragraphs AG27, AG34, AG95 and AG96 are amended, and paragraph 36A is added. New text is underlined and deleted text is struck through.

**Effective Date**

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36A. [Annual Improvements to IPSAS Accounting Standards – Volume 10], issued in [MMMM YYYY], amended paragraphs AG27, AG34, AG95 and AG96. An entity shall apply that amendment for annual reporting periods beginning on or after [MMMM] [DD], [YYYY]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

## Application Guidance

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### *Severe Hyperinflation*

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- AG27. The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:
- (a) A reliable general price index is not available to all entities with transactions and balances in the currency; and
  - (b) ~~Exchangeability between the~~ The currency is not exchangeable into and a relatively stable foreign currency ~~does not exist~~. Exchangeability is assessed in accordance with IPSAS 4.

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### *Use of Deemed Cost after Severe Hyperinflation*

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- AG34. If a first-time adopter elects to measure assets and liabilities at a current value and to use that current value as the deemed cost in its opening IPSAS Statement of Financial Position because of severe hyperinflation (see paragraph AG25), the first-time adopter's first IPSAS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that is subject to severe hyperinflation. ~~has both of these characteristics:~~
- ~~(a) A reliable general price index is not available to all entities with transactions and balances in the currency.~~
  - ~~(b) Exchangeability between the currency and a relatively stable foreign currency does not exist.~~

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### *Hedge Accounting*

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- AG95. A first-time adopter shall not reflect in its opening statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with IPSAS 41 (for example, many hedging relationships where the hedging instrument is a stand-alone written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk) (see paragraph 129 (a) of IPSAS 41). However, if a first-time adopter designated a net position as a hedged item in accordance with its previous basis of accounting, it may designate, as a hedged item in accordance with IPSAS Standards, an individual item within that net position, or a net position if that meets the requirements in paragraph 146 of IPSAS 41, provided that it does so no later than the date of adoption of IPSAS Standards or where it elects to apply the exemption that provides a transition period not to recognize and/or measure financial instruments, the date when the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier).
- AG96. If, before the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemption not to recognize and/or measure financial instruments, the date on which the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance

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with the applicable IPSAS Standard (whichever is earlier), a first-time adopter had designated a transaction as a hedge but the hedge did not meet the qualifying criteria~~conditions~~ for hedge accounting in paragraphs 129(b)-(c) of IPSAS 41, the first-time adopter shall apply paragraphs 135 and 136 of IPSAS 41 to discontinue hedge accounting. Transactions entered into before the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemption that provides a transition period not to recognize and/or measure financial instruments, the date when the transitional exemption expires and/or the relevant financial instruments are recognized and/or measured in accordance with IPSAS 41 (whichever is earlier), shall not be retrospectively designated as hedges.