

**Mr Jean-Paul Gauzès**  
**President**  
**European Financial Reporting**  
**Advisory Group (EFRAG)**  
**35 Square de Meeûs**  
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**Belgium**

**Ref: EFRAG's due process on IASB's Exposure Draft Lack of Exchangeability  
(Amendments to IAS 21)**

Dear Mr Gauzès,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the EFRAG's due process with regards to the IASB's Exposure Draft ED/2021/4 *Lack of Exchangeability*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRS.

ESMA welcomes the IASB's initiative to clarify what an entity is required to do when a lack of exchangeability between two currencies is not temporary in nature. ESMA agrees that, despite the fact that situations in which a currency is not exchangeable arise relatively infrequently, it is important to provide clarity on how to account for it since the currently existing diverse application of IAS 21 *The Effects of Changes in Foreign Exchange Rates* can lead to material differences in the financial statements of entities affected.

ESMA supports the Board's proposal to add requirements to IAS 21 for an entity to determine whether a currency is exchangeable into another currency. ESMA in particular supports the proposed definition of exchangeability and the factors proposed by the IASB to be considered in the assessment exchangeability.

Furthermore, ESMA largely agrees with the amendments to IAS 21 specifying how an entity determines the spot exchange rate when a currency is not exchangeable into another currency. However, ESMA suggests that the IASB should *require* (rather than *permit*) the use of an observable exchange rate or the use of the first subsequence exchange rate which meet the conditions described in paragraph 19A of the ED if those are available in the interest of comparability, consistent applicable and enforceability.

Last, but not least, ESMA supports the proposed disclosure requirements, which indeed would enable users to understand how a lack of exchangeability affects preparers' financial statements, and the transitions requirements.



In case you have any questions or comments please do not hesitate to contact me or Evert van Walsum, Head of the Investors and Issuers Department (Evert.vanWalsum@esma.europa.eu).

Yours sincerely,

Anneli Tuominen