STAFF PAPER

October 2014

IASB Meeting

Project	Foreign Currency Translation		
Paper topic	Other issues		
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Introduction

1. In this paper we look at other narrow-scope issues relating to IAS 21 *The Effects of Changes in Foreign Exchange Rates* that have been:

   (a) raised to the IFRS Interpretations Committee (the 'Interpretations Committee'), but that have not been taken onto its agenda; and

   (b) identified in the Korea Accounting Standards Board's (KASB's) Research Report on Foreign Currency Accounting.

2. The purpose of this paper is to summarise these issues and consider whether the IASB would like to explore any of them further as a narrow-scope project in its own right.

IAS 21-related issues raised with the Interpretations Committee

3. A few specific issues related to IAS 21 have been discussed by the Interpretations Committee, but have not been taken onto its agenda. These are:

   (a) exchange rate for remeasuring foreign currency transactions and translation of foreign operations;

   (b) repayments of investments and foreign currency translation reserve; and

   (c) determination of functional currency of an investment holding company.

4. These three issues are discussed in later sections of this paper.

5. In addition, the Interpretations Committee has recently received two further submissions about aspects of IAS 21.

6. The first is about the accounting treatment on consolidation of an entity's net investment in a foreign entity that is subject to foreign exchange restrictions, combined with hyperinflation, as, for example in Venezuela. This issue was discussed by the Interpretations Committee in July 2014, when it tentatively decided not to take the issue onto its agenda, because the Interpretations Committee felt that the issue was too broad for it to deal with. At the request of the Interpretations Committee, the IASB was made aware of the issue at its meeting in September 2014. We shall not re-address the issue in this paper, but will await the outcome of the Interpretations Committee's deliberations of the responses to its tentative agenda decision at its meeting in November 2014.

7. The second recent submission concerns which exchange rate should be used to recognise revenue arising from a sales contract that is denominated in a foreign currency. The staff are currently conducting outreach in respect of this submission and will bring an analysis of the issue to a future meeting of the Interpretations Committee. It is therefore too early to consider whether the IASB should take any action in respect of this issue.

8. The relevant extracts from IFRIC *Updates* in respect of the issues mentioned above are given in Appendix B.

Exchange rate for remeasuring foreign currency transactions and translation of foreign operations

Background

9. This issue was discussed by the Interpretations Committee in April 2003. The issue is which exchange rate should be used for remeasuring foreign currency transactions and the translation of foreign operations, if more than one exchange rate is available.

10. The Interpretations Committee noted that guidance on the use of multiple rates had recently been added as a result of the Improvements to International Accounting Standards project undertaken by the IASB in 2001-2003, as follows:

> 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.

11. The Interpretations Committee agreed that the guidance in the IAS 21 is satisfactory and decided not to take the issue onto its agenda.

Staff comments and recommendation

12. The question about which exchange rate should be used to translate the entity's net investment in the foreign operation when there are multiple exchange rates was also discussed recently by the Interpretations Committee. That discussion was part of its consideration of accounting for foreign exchange restrictions and hyperinflation in a foreign operation in July 2014 (see the first issue in the IFRIC *Update* for July 2014 in Appendix B). The Interpretations Committee reached a similar tentative conclusion not to take this specific issue onto its agenda. The Interpretations Committee observed very little diversity in practice regarding the principle to use when determining which of multiple rates should be used to translate an entity's net investment in a foreign operation, noting that predominant practice is to apply by extension the principle referred to in the quote included in paragraph 10.

13. The staff agree that the principle of which exchange rate when there are multiple rates to use is adequately dealt with in the Standard. However, when the issue of multiple exchange rates arises, the issue is often more complex, because of, for example, a lack of exchangeability, as discussed recently by the Interpretations Committee.

14. The staff consider that no further action is warranted on this matter. However as noted in paragraph 6 above, the IASB will continue to be kept informed about the related issues in the current submission that is still under consideration by the Interpretations Committee.

Question for the IASB on exchange rate for remeasuring foreign currency transactions and translation of foreign operations
1. Does the IASB agree with the staff conclusion that no IASB action is warranted in relation to this matter?

Repayments of investments and foreign currency translation reserve

Background

15. This issue was discussed by the Interpretations Committee in 2010 (see IFRIC *Update* for September 2010 in Appendix B).

16. The foreign currency translation reserve contains the cumulative translation adjustments on the translation of an entity's net investment in a foreign operation in the consolidated financial statements. On a partial disposal of a foreign operation, an entity is required to reclassify to profit or loss the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income (OCI). The matter considered by the Interpretations Committee was the lack of clarity about whether the foreign currency translation reserve should be reclassified to profit or loss for transactions in which there is a reduction in:

    (a) the entity's percentage equity ownership in the foreign operation (a relative reduction); or

    (b) the absolute investment in the foreign operation, even if there is no reduction in the proportionate equity ownership interest (eg a repayment of capital from a wholly owned foreign operation). A reduction in ownership may be relative, absolute or both.

17. The Interpretations Committee considered that different interpretations of the requirement in paragraph 48D of IAS 21 to treat 'any reduction in an entity's ownership interest in a foreign operation' as a partial disposal (with some specific exceptions) could lead to diversity in practice.

18. However, the Interpretations Committee decided not to address the issue further, because it did not think that it would be able to reach a consensus on the issue on a timely basis because of the divergent views of the Interpretations Committee.

19. The Interpretations Committee also recommended that the IASB should consider this issue within a broad review of IAS 21 as a potential item for its post-2011 agenda.

Available outreach

20. The Interpretations Committee received three comment letters on its tentative agenda decision. One comment letter agreed with the Interpretation Committee's tentative

agenda decision not to add the issue to its agenda and two comment letters 'acknowledge' the reasons for the decision not to take the item onto the agenda. However all three comment letters recommend that additional or future action should be taken to address the issue, either as part of the IASB's review of IAS 21 in the future or through an annual improvement to the Standard.

21. The divergent views of the Interpretations Committee indicates that there is diversity of practice. The staff note that all of the three large firms' accounting manuals that discuss this issue mention that entities have an accounting policy choice in this respect. This was partly based on the fact that the Interpretations Committee had been unable to reach a consensus on the issue.

22. A few respondents to the 2011 Agenda Consultation highlighted recycling cumulative translation adjustments as an issue that could be considered for a narrow-scope project or review. Furthermore the issue was also mentioned by the KASB Working Group in its Research Report, within the context of deemed disposals (see Appendix A).

Staff comments and recommendation

23. Reclassifying items previously recognised in OCI on the partial disposal of a foreign operation is related to the wider issue about the use of OCI and subsequent reclassifications from OCI to profit and loss, which is currently being considered as part of the *Conceptual Framework* project. However the *Conceptual Framework* project is not addressing whether, and if so how, specific Standards should be amended following finalisation of the principles in the *Conceptual Framework*. Neither will the *Conceptual Framework* be addressing the detail of this specific issue, if it is accepted that cumulative translation adjustments should continue to be reclassified to profit or loss on the full and partial disposal of investments in foreign operations.

24. Hence this is an issue on which IAS 21 could be clarified though an annual improvement (or even an interpretation), which would be likely to reduce diversity and could be dealt with separately from a wider research project. This would be a more attractive option if the IASB had already decided not to revisit IAS 21 with the aim of aligning the requirements for the use of OCI and reclassifications to profit or loss with the principles in the finalised *Conceptual Framework*. If the IASB decides

to take this route, then the staff recommend that some more research is first carried out to ascertain how prevalent the issue is and how much it affects investors.

25. Alternatively the IASB could wait until the *Conceptual Framework* is finalised. At that point, the IASB could consider whether it wishes to amend this narrow aspect of IAS 21 (that is, whether cumulative translation adjustments should be recognised in OCI and reclassified to profit or loss) to bring it in line with the principles in the *Conceptual Framework*. At the same time, the IASB could address this specific issue about what a partial disposal is. The staff do not envisage this as being as big an exercise as a full comprehensive review of the conceptual basis for IAS 21, as discussed in Agenda Paper 8A(b).

26. The available outreach to date mentioned above does not indicate that there is significant demand for this issue to be addressed, or, even if it is to be addressed, for this to be done on an urgent basis. It would make sense to address this issue within the context of the finalised principles in the *Conceptual Framework*.

27. Consequently, the staff recommend, for the time being, that the IASB should not actively pursue this issue as a separate narrow-scope project, but that the IASB should wait until the principles for the use of OCI and reclassifications from OCI in the *Conceptual Framework* are finalised.

Question for the IASB on repayments of investments and foreign currency translation reserve
2. Does the IASB agree with the staff recommendation in paragraph 27?

Determination of functional currency of an investment holding company

Background

28. This issue was discussed by the Interpretations Committee in 2010 (see IFRIC *Update* for March 2010 in Appendix B).

29. The Interpretations Committee received a request for guidance on whether an investment holding company should consider the underlying economic environment of its subsidiaries in determining its functional currency in its separate financial

statements. This issue generally arises when the ultimate parent holding company of a group is established outside the jurisdiction in which its subsidiaries operate.

30. The Interpretations Committee noted that how an entity applies IAS 21 for the purpose of determining functional currency requires the exercise of judgement. It also involves the assessment of all of the indicators in paragraphs 9-14 of IAS 21 (ie the primary and secondary indicators and additional factors). Hence, any guidance the Interpretations Committee could provide would be in the nature of application guidance rather than an interpretation. Consequently, the Interpretations Committee decided not to add the issue to its agenda.

Available outreach

31. The Interpretations Committee received two comment letters on its tentative agenda decision. One respondent disagreed with the tentative agenda decision. Both respondents noted that the assessment of the primary indicators in paragraph 9 of IAS 21 were not relevant for a non-trading entity, which made it difficult to determine the functional currency of a holding company.

32. This specific issue was not raised by any respondents to the 2011 Agenda Consultation Request for Views or in the KASB Research Report.

Staff recommendation

33. The staff agree with the decision of the Interpretations Committee, for the reasons outlined in paragraph 30 above. Furthermore, the limited outreach indicates that there does not appear to be significant demand for an amendment to IAS 21 in respect of this specific issue.

34. The staff therefore consider that no further action is warranted.

Question for the IASB on determination of functional currency of an investment holding company
3. Does the IASB agree with the staff conclusion in paragraph 34?

Specific issues raised in the KASB Research Report

35. The KASB and its Working Group raised a number of specific practical issues in its Research Report. These issues are summarised in Appendix A, together with the staff's comments.

36. Two of the issues are the subject of current submissions that are still being considered by the Interpretations Committee. Another issue is related to the issue of reclassification of cumulative translation adjustments on the partial disposal of an investment in a foreign operation, which is discussed in paragraphs 15-27 above.

37. In the staff's view the other issues can be categorised as follows:

(a) many are issues of application that require the use of judgement depending upon the specific facts and circumstances (eg whether deferred trading balances can be treated as part of the net investment in a foreign operation);

(b) for others there is no need to amend the Standard, because the requirements are either:

(i) clear (eg the definition of a foreign operation is not restricted to legal entities);

(ii) consistent with other Standards (eg the treatment of foreign exchange gains and losses on financial instruments measured at fair value through OCI is consistent with the business model that underpins that measurement basis); or

(iii) appropriate within the context of the standard (eg the definition of currency risk in IFRS 7 *Financial Instruments: Disclosures*);

(c) some are too wide for a narrow-scope amendment on foreign exchange issues (eg the use of linked presentation for fair value hedges, and the accounting treatment in hyperinflationary economies);

(d) one of these issues arises because of an editorial inconsistency between Standards, but this does not appear to be giving rise to difficulties in practice. The issue arises because exceptions to the requirement to recognise exchange gains and losses in profit or loss contained in other Standards (that is, IAS 23 *Borrowing Costs* and IFRIC 1 *Changes in*

Existing Decommissioning, Restoration and Similar Liabilities) are inconsistent with the general requirement in IAS 21.

38. For the reasons outlined above, the staff recommend that the IASB should not address any of these other issues as narrow-scope projects.

Question for the IASB on narrow-scope issues raised in the KASB Research Report
4. Does the IASB agree with the staff recommendation in paragraph 38?

APPENDIX A

Narrow issues raised by the KASB and its Working Group

	Issue	Staff comments
1	**Definition of an operation** (IAS 21 para 8). • The IAS 21 definition of a foreign operation could be construed as referring to separate legal entities only. The KASB proposes that foreign operations be determined according to economic substance consistent with paragraph RE6 of the Exposure Draft *Conceptual Framework for Financial Reporting –The Reporting Entity* that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished objectively from the rest of the entity.	IAS 21 defines a foreign operation as an 'entity', which is not defined in IFRS as being restricted to separate legal entities only. We therefore do not think there is a need to amend IAS 21 as suggested.
2	**Linked presentation for Fair Value hedges** • Using linked presentation for fair value hedges of long term ship building contracts in the balance sheet would better reflect the economic substance of an entity's hedging activity. This is because grossing up the balance sheet adversely affects debt to equity ratio, when in fact the entity is mitigating foreign exchange risk.	This issue was considered by the IASB when developing IFRS 9. The IASB concluded that it should not permit linked presentation in the absence of a clear principle, which needs to be considered within a broader context than merely for hedge accounting (see paragraphs BC6.362-BC6.370 of IFRS 9). A principle for linked presentation is not going to be resolved in a project on foreign exchange. Hence, we think that the scope of this issue is too wide to be addressed as a narrow-scope amendment to IAS 21.

3 3(a)	**Inconsistency with US GAAP:** **Recognition of foreign exchange gains and losses on AFS instruments**	
	• Foreign exchange gains and losses that relate to amortised cost movements on available for sale (AFS) debt instruments are taken to profit or loss under IAS 39 (and IFRS 9 for instruments at fair value through OCI (FVOCI)), but under US GAAP all foreign exchange movements on AFS instruments are taken to OCI as part of the fair value movement.	The IFRS 9 treatment for debt instruments at FVOCI is consistent with the business model. Consequently, the staff believe that there is no basis for amending IFRS to bring it in line with US GAAP.
3(b)	**Accounting treatment in hyperinflationary economies**	
	• IAS 29 requires the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the end of the reporting period, whereas US GAAP requires the financial statements of such an entity to be remeasured using the reporting currency of the group as if it was the functional currency of the entity.	This is not a foreign exchange issue.
4 4(a)	**Consistency across IFRSs** **Definition of foreign currency risk**	
	• The definition of foreign currency risk in IFRS 7 Appendix A only relates to financial instruments, but other items are also subject to currency risk. For example, monetary non-financial instruments such as executory contracts may be designated as hedged items in IAS 39 in respect of foreign exchange risk.	The IFRS 7 definition of currency risk is within the context of a disclosure Standard for financial instruments. Hedged items do not have to be within the scope of IFRS 7. There are separate disclosure requirements in IFRS 7 about hedge accounting (IFRS 7 paragraphs 21A-21G).
4(b)	**Exceptions from recognising exchange differences in profit or loss**	
	• There are some exceptions to the requirement to recognise exchange gains or losses in profit or loss that are not explicitly excluded from IAS 21. For example: (i) the capitalisation of borrowing costs that includes foreign exchange differences in IAS 23; and (ii) changes in existing decommissioning,	These appear to be inconsistencies between the different Standards/ Interpretations. However, they do not seem to be causing difficulties in practice.

	restoration and similar liabilities that are to be settled in cash denominated in a foreign currency that in accordance with IFRIC 1 are added to or deducted from the cost of the related asset.	
5	**Guidance for using average exchange rates** • IAS 21 permits the use of average exchange rates for practical reasons that approximates to the exchange rates at the dates of transactions. It would be useful to have additional guidance, for example a general method for calculating an average exchange rate (eg mid-period rate or average of opening or closing rates for the period); the length of period selected to average the exchange rates; and types of items that the average rate could apply to.	This is an area in which judgement is required. It will depend upon the specific facts and circumstances. It is therefore not appropriate to give further guidance than that already given in paragraphs 22 and 40 of IAS 21.
6	**Guidance for multiple exchange rates or cases where currency exchange is temporarily unavailable** • Paragraph 26 of IAS 21 provides guidance when there are multiple exchange rates or exchangeability between two currencies is temporarily lacking, when translating foreign currency items into an entity's functional currency. However there is no equivalent guidance for translating the results and financial position of a foreign operation into a different presentation currency.	Outreach as part of the issue on foreign exchange restrictions and hyperinflation has indicated that the principles in paragraph 26 of IAS 21 are widely extended to similar situations when translating an entity's net investment in a foreign operation in the group's presentation currency. Hence there is no great need to address this issue.
7	**Advance receipts and sales denominated in a foreign currency** • Should foreign exchange gains and losses be recognised on advance receipts and sales denominated in foreign currency (ie what exchange rate should be used to recognise the revenue)?	This is the subject of a recent Interpretations Committee submission for a potential agenda item, which has yet to be discussed by the Interpretations Committee.

8	**Translation of equity items into the functional and/or presentation currency** • IAS 21 is silent regarding the treatment of equity items that are denominated in a foreign currency. Guidance could be provided on the translation of share capital, other equity reserves resulting from transactions with equity holders and other equity balances resulting from gains and losses being recognised in OCI.	Equity is defined as the residual interest in the assets of the entity after deducting all of its liabilities (paragraph 4.4 of the *Conceptual Framework*). Hence, any retranslation of equity items can only be recognised in equity itself. Different line items within equity are either prescribed by local legislative requirements or by specific requirements in accounting standards. Consequently, in the staff's view, the retranslation of equity items is a matter of what is most appropriate given what those different line items within equity represent. This is a matter of judgement rather than something to be prescribed within an accounting standard on foreign exchange. The staff do not recommend taking on a narrow-scope project to address this point.
9	**Allocating goodwill to an acquired multinational operation** • Paragraph 47 of IAS 21 requires any goodwill and related fair value adjustments arising on the acquisition of a foreign operation to be treated as assets and liabilities of the foreign operation and denominated in the functional currency of that operation. It would be helpful to have greater guidance on the allocation of goodwill and the fair value adjustments on the acquisition of a multinational operation comprising a number of businesses with different functional currencies. As noted in paragraph BC32 of IAS 21 the level of goodwill allocations for foreign currency translation purposes may be different from the level at which goodwill is tested for impairment in accordance with IAS 36.	The staff believe that allocating goodwill to each foreign operation will be a matter of judgement that would depend upon the specific facts and circumstances. Consequently, any guidance will be of limited value. Hence, the staff do not recommend that the IASB should address this specific issue.

10	**Deferred trading balances** • Can deferred trading balances be treated as part of the net investment in a foreign operation (eg when an inter-company balance never drops below a specified minimum)?	This is an area requiring judgement, which will depend upon the specific facts and circumstances. The staff believe that this issue cannot be addressed by amending the Standard. Hence the staff recommend that the IASB should not address this specific issue.
11	**Monetary items becoming or ceasing to be part of an entity's net investment in a foreign operation** • An existing monetary item may be designated as part of the net investment in a foreign operation or ceases to be considered as part of the net investment in the foreign operation. It would be helpful to have guidance regarding when this classification is regarded as having happened (eg at the beginning of a reporting period or part way through a reporting period when it was decided to redesignate the monetary item).	Again, this is an issue of application depending upon specific facts and circumstances and on the materiality of the amounts involved. Hence, the staff recommend that the IASB should not address this specific issue.
12	**Presentation of exchange differences in profit or loss** • IAS 21 requires disclosure of the amount of exchange gains or losses recognised in profit or loss, but does not specify where in profit or loss such exchange gains or losses should be presented. For example entities may include exchange gains and differences under finance costs or allocate then to various line items in the income statement.	An entity should follow the presentation principles in IAS 1 for the statement of profit or loss and other comprehensive income. presentation and disclose significant accounting policies. IAS 1 permits a degree of flexibility to allow entities to present their statement of profit or loss and other comprehensive income in a form is relevant to an understanding of the entity's financial performance. This is an area that requires judgement depending upon the facts and circumstances. Hence, the staff recommend that the IASB should not address this specific issue.

13	**Deemed disposals** • An entity's interest on a foreign operation may be diluted, for example if the foreign operation issues additional shares through a rights issue which is not taken up by the entity, which may result in a deemed disposal. Deemed disposals and whether a resulting profit or loss should arise are not specifically dealt with in IFRS s and IAS 21 is silent on the treatment of cumulative translation adjustments attributable to the reduction in the entity's interest in the foreign operation due to a deemed disposal.	Paragraph B82 of IFRS 10 does contain some guidance. It notes that an event can cause an investor to gain or lose power over an investee without the investor being involved in the event. The treatment of cumulative translation adjustments in respect of partial disposals (including deemed partial disposals) is discussed in greater detail in the main body of this agenda paper.

APPENDIX B

Extracts from IFRIC *Updates*

IFRIC Update April 2003

IAS 21 The Effects of Changes in Foreign Exchange Rates – Exchange rate for remeasuring foreign currency transactions and translation of foreign operations

The issue is which exchange rate an entity should use for remeasuring foreign currency transactions and translation of foreign operations if more than one exchange rate is available.

The IFRIC noted that the improved IAS 21, paragraph 24, states that "When several exchange rates are available, the rate to be 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." The IFRIC agreed that the guidance in the improved IAS 21 is satisfactory and decided not to take the issue on to its agenda.

IFRIC Update Sept 10

IAS 21 The Effects of Changes in Foreign Exchange Rates — Repayments of investments and foreign currency translation reserve

The Committee received a request for guidance on the reclassification of the foreign currency translation reserve (FCTR) when a repayment of a foreign investment occurs. The request specifically sought guidance on whether FCTR should be recycled for transactions in which there is a reduction in:

- the investor's percentage equity ownership in the investee (a relative reduction); or
- the absolute investment in the investee, even if there is no reduction in the proportionate equity ownership interest. A reduction in ownership may be relative, absolute or both.

The Committee noted that paragraph 48D of IAS 21 requires that an entity must treat 'any reduction in an entity's ownership interest in a foreign operation' as a partial disposal, apart from those reductions in paragraph 48A that are accounted for as disposals. How an entity applies the requirements in paragraph 48D is largely dependent on whether it interprets 'any reduction in an entity's ownership interest in a foreign operation' to mean an absolute reduction, a proportionate reduction, or both.

The Committee considers that different interpretations could lead to diversity in practice in the application of IAS 21 on the reclassification of the FCTR when repayment of investment in a foreign operation occurs. However, the Committee decided neither to add this issue to its agenda nor to recommend the Board to address this issue through Annual Improvements because it did not think that it would be able to reach a consensus on the issue on a timely basis. The Committee recommends that the IASB should consider this issue within a broad review of IAS 21 as a potential item for its post-2011 agenda.

IFRIC Update March 2010

IAS 21 The Effects of Changes in Foreign Exchange Rates— Determination of functional currency of an investment holding company

The IFRIC received a request for guidance on whether the underlying economic environment of subsidiaries should be considered in determining, in its separate financial statements, the functional currency of an investment holding company.

IAS 21 paragraphs 9—11 provide factors to be considered in determining the functional currency of an entity. Paragraph 12 states that when the 'indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions'. In addition, paragraph 17 of IAS 21 requires that an entity determine its functional currency in accordance with paragraphs 9—14 of the standard. Therefore, paragraph 9 should not be considered in isolation when determining the functional currency of an entity.

Consequently, how an entity applies IAS 21 for the purpose of determining its functional currency—whether it is an investment holding company or any other type of entity — requires the exercise of judgement. IAS 1 Presentation of Financial Statements requires disclosure of significant accounting policies and judgements that are relevant to an understanding of the financial statements.

The IFRIC noted that any guidance it could provide would be in the nature of application guidance rather than an interpretation. Therefore, the IFRIC decided not to add the issue to its agenda.

IFRIC Update July 2014

IAS 21 The Effect of Changes in Foreign Exchange Rate—foreign exchange restrictions and hyperinflation (Agenda Paper 16)

The Interpretations Committee received a request for guidance on the translation and consolidation of the results and financial position of foreign operations in Venezuela. The issue arises because of strict foreign exchange controls in Venezuela. This includes the existence of several official exchange rates that may not fully reflect the local rate of hyperinflation and of restrictions over the amount of local currency that can be exchanged.

Concerns were raised that using an official exchange rate to translate an entity's net investment in a foreign operation in Venezuela appeared not to appropriately reflect the financial performance and position of the foreign operation in the group's consolidated financial statements.

The Interpretations Committee identified two primary accounting issues:

a. which rate should be used to translate the entity's net investment in the foreign operation when there are multiple exchange rates?
b. what rate should be used when there is a longer-term lack of exchangeability?

With respect to the first issue, the Interpretations Committee observed very little diversity in practice regarding the principle to use when determining which of multiple rates should be used to translate an entity's net investment in a foreign operation. The Interpretations Committee noted that predominant practice is to apply by extension the principle in paragraph 26 of IAS 21, which gives guidance on which exchange rate to use when reporting foreign currency transactions in the functional currency when several exchange rates are available. Hence, despite the widespread applicability, the Interpretations Committee [decided] not to take the first issue onto its agenda.

With respect to the second issue, the Interpretations Committee observed that this issue is widespread and has led to some diversity in practice. A longer-term lack of exchangeability is not addressed by the requirements in IAS 21, and so it is not entirely clear how IAS 21 applies in such situations. However, the Interpretations Committee thought that addressing this issue is a broader-scope project than it could address (because of related cross-cutting issues). Accordingly the Interpretations Committee [decided] not to take this issue onto its agenda.

However, the Interpretations Committee noted that several existing disclosure requirements in IFRS would apply when the impact of foreign exchange controls is material to understanding the entity's financial performance and position. Relevant disclosure requirements in IFRS include:

a. disclosure of significant accounting policies and significant judgements in applying those policies (paragraphs 117–124 of IAS 1);
b. disclosure of sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, which may include a sensitivity analysis (paragraphs 125–133 of IAS 1); and
c. disclosure about the nature and extent of significant restrictions on an entity's ability to access or use assets and settle the liabilities of the group, or its joint ventures or associates (paragraphs 10, 13, 20 and 22 of IFRS 12).