

Explanatory Statement

Accounting Standard AASB 2023-5 ***Amendments to Australian Accounting Standards –*** ***Lack of Exchangeability***

October 2023



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2023-5

This Standard makes amendments to AASB 121 *The Effects of Changes in Foreign Exchange Rates* (August 2015), AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015) and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-For-Profit Tier 2 Entities* (March 2020).

These amendments arise from the issuance of International Financial Reporting Standard *Lack of Exchangeability* (Amendments to IAS 21) by the International Accounting Standards Board (IASB) in August 2023.

Main Features of AASB 2023-5

This Standard amends AASB 121 and AASB 1 to improve the usefulness of information provided to users of financial statements. The amendments require entities to apply a consistent approach to determining whether a currency is exchangeable into another currency and the spot exchange rate to use when it is not exchangeable.

The Standard also amends AASB 121 to extend the exemption from complying with the disclosure requirements of AASB 121 for entities that apply AASB 1060 to ensure Tier 2 entities are not required to comply with the new disclosure requirements in AASB 121 when preparing their Tier 2 financial statements.

Application Date

This Standard applies to annual periods beginning on or after 1 January 2025. Earlier application is permitted for annual periods beginning before 1 January 2025.

Marked-up Text

This Standard incorporates marked-up text to clearly identify some of the amendments to AASB 121, AASB 1 and AASB 1060. All amendments are incorporated using clean text into the compilations of the pronouncements when they are prepared, based on the legal commencement date of the amendments.

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 310 *Lack of Exchangeability* in May 2021 for public comment, with comments due by 23 July 2021. ED 310 incorporated IASB Exposure Draft ED/2021/4 *Lack of Exchangeability*.

No submissions were received and the AASB did not make a submission to the IASB.

The IASB analysed the feedback it received on the proposed amendments and decided to finalise the amendments after making some changes. The changes included amending the definition of when a currency is exchangeable to make it more specific (consistent with the proposals) and clarifying the objective in estimating the spot exchange rate when a currency is not exchangeable. The IASB set an effective date for the amendments of annual periods beginning on or after 1 January 2025, with earlier application permitted.

The AASB considered and adopted the amendments made by the IASB to IAS 21 in finalising AASB 2023-5 and the amendments to AASB 121 and the other Standards. The AASB set an application date of annual periods beginning on or after 1 January 2025, with earlier application permitted, the same as the IASB's effective date.

A Policy Impact Analysis has not been prepared in connection with the issue of AASB 2023-5 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Legislative Features of Accounting Standards

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Copyright

This Standard, like all Accounting Standards promulgated by the AASB, is published with Commonwealth of Australia copyright. Educational, commercial and other publishers are able to request the AASB for permission to reprint all or parts of this Standard, which is given without charge.

Exemption from Sunsetting

Accounting Standards promulgated by the AASB that are legislative instruments are exempt from the sunsetting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemptions and Other Matters) Regulation 2015* (Item 18(a)).

The AASB's Standards incorporate Standards set by the International Accounting Standards Board in respect of publicly accountable for-profit entities. The AASB's Standards are exempt from sunsetting because a more stringent review process than sunsetting applies to the Standards. This review process ensures Australia's Accounting Standards regime remains consistent with international Standards. Typically, the AASB Standards are revised at least once within a ten-year period, with most of the Standards subject to much more frequent revisions. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunsetting regime would have very limited practical application to AASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 2023-5 ***Amendments to Australian Accounting Standards – Lack of Exchangeability***

Overview of the Accounting Standard

This Standard amends AASB 121 *The Effects of Changes in Foreign Exchange Rates* and AASB 1 *First-time Adoption of Australian Accounting Standards* to improve the usefulness of information provided to users of financial statements. The amendments require entities to apply a consistent approach to determining whether a currency is exchangeable into another currency and the spot exchange rate to use when it is not exchangeable.

The Standard also amends AASB 121 to extend the exemption from complying with the disclosure requirements of AASB 121 for entities that apply AASB 1060 to ensure Tier 2 entities are not required to comply with the new disclosure requirements in AASB 121 when preparing their Tier 2 financial statements.

Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.