IFRS in Focus
IASB publishes proposals for amendments under its *Annual Improvements* process

Contents

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This edition of *IFRS in Focus* outlines the proposals set out in the recent Exposure Draft ED/2019/2 *Annual Improvements to IFRS Standards 2018–2020* (the 'ED'), which was published by the IASB in May 2019 for public comment.

- The ED proposes amendments to the following Standards:
  - IFRS 1 *First-time Adoption of International Financial Reporting Standards*
  - IFRS 9 *Financial Instruments*
  - Illustrative Examples accompanying IFRS 16 *Leases*
  - IAS 41 *Agriculture*
- Effective dates for the proposed amendments will be set after their exposure
- Earlier application is proposed to be permitted for all amendments
- The comment period ends on 20 August 2019

The proposed amendments

The *Annual Improvements* process provides the IASB with the ability to make necessary, but non-urgent, amendments to IFRS Standards that address unintended consequences, conflicts or oversights. The publication of the proposals in a single ED is intended to streamline the standard-setting process, providing benefits for both interested parties and the IASB.

The ED for the 2018–2020 cycle proposes the following amendments to four IFRS Standards that meet the criteria for the IASB's *Annual Improvement* process:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*— Subsidiary as a first-time adopter

The proposal is to extend the exemption in IFRS 1:D16(a) to cumulative translation differences reported by a subsidiary that becomes a first-time adopter later than its parent. The amendment would permit a subsidiary, associate or joint venture to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS Standards.

IFRS 9 *Financial Instruments*— Fees included in the '10 per cent' test for derecognition

IFRS 9 requires an entity to derecognise a financial liability and recognise a new financial liability when there is an exchange between an existing borrower and the lender of debt instruments with substantially different terms (including a substantial modification of the terms of an existing financial liability or part of it).

The terms are substantially different if the discounted present value of the remaining cash flows under the new terms are at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability ('10 per cent' test).

The proposed amendment would clarify that the fees to be included when determining the discounted present value of the cash flows under the new terms are only those paid or received between the borrower and the lender, including those paid or received on behalf of the other.

The amendment would be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

Illustrative Examples accompanying IFRS 16 *Leases*— Lease incentives
The proposal is to amend Illustrative Example 13 accompanying IFRS 16 to remove from the illustration a reimbursement from the lessor relating to leasehold improvements.

The amendment would remove potential for confusion regarding the treatment of lease incentives applying IFRS 16.

No transition requirements are proposed as the amendment affects non-mandatory material accompanying IFRS 16.

IAS 41 *Agriculture*— Taxation in fair value measurements
The IASB removed the requirement to use a pre-tax discount rate when measuring fair value from IAS 41 in 2008. After that amendment, entities could choose whether to use a pre-tax or a post-tax discount rate when measuring fair value. However, IAS 41 still requires entities to use pre-tax cash flows when measuring fair value.

To resolve this conflict, the IASB proposes to remove the requirement in IAS 41:22 for entities to exclude cash flows for taxation when measuring fair value.

This would align the fair value measurement in IAS 41 with the requirements of IFRS 13 *Fair Value Measurement* and would enable preparers to determine whether to use pre- or post-tax cash flows and discount rates for the most appropriate fair value measurement without restriction.

The amendment would be applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.

Observation
Amendments to IFRS 1
IFRS 1:D16(a) of IFRS 1 provides a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent with an exemption relating to the measurement of its assets and liabilities. The Basis for Conclusions to IFRS 1 explains that this exemption was provided so that a subsidiary would not have to keep two sets of records based on different dates of transition.

Applying the existing requirements in IFRS 1, subsidiaries still have to keep two sets of records for cumulative translation differences. The amendment would simplify transition for subsidiaries as they would no longer be required to keep two sets of records.

The Board did not extend the proposed amendment to other components of equity as there is ordinarily no difference between the amounts reported by a subsidiary and its parent or a potential difference could be avoided by applying, or not applying, other IFRS 1 exemptions.

Effective date
The effective dates for the proposed amendments, if finalised, will be determined after considering the comments received on the ED. The amendment to the Illustrative Examples of IFRS 16 will not have an effective date because the proposed amendment affects non-mandatory material accompanying IFRS 16.

Early application is proposed to be permitted for all amendments (if finalised).

The comment period for the ED ends on 20 August 2019.

Further information
If you have any questions about the proposed amendments under the *Annual Improvements* process, please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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