May 2019

IFRS® Standards
Exposure Draft ED/2019/2

Annual Improvements to IFRS® Standards 2018–2020

Comments to be received by 20 August 2019

IASB®

Exposure Draft

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Introduction

The International Accounting Standards Board (Board) has published this Exposure Draft of proposed amendments to IFRS® Standards as part of its Annual Improvements process.

The Annual Improvements process provides a mechanism for dealing efficiently with a collection of minor amendments to IFRS Standards.

Content

The Exposure Draft includes a section for each IFRS Standard or accompanying document for which an amendment is proposed. Each section includes:

(a) an explanation of the proposed amendment;

(b) the paragraphs affected by the proposed amendment; and

(c) the basis for the Board's conclusions in proposing the amendment.

Standards addressed

The following table shows the Standards or accompanying documents that would be affected by, and the subjects of, the proposed amendments.

Standard	**Subject of proposed amendment**
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Subsidiary as a first-time adopter
IFRS 9 *Financial Instruments*	Fees included in the '10 per cent' test for derecognition of financial liabilities
Illustrative Examples accompanying IFRS 16 *Leases*	Lease incentives
IAS 41 *Agriculture*	Taxation in fair value measurements

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Invitation to comment

The Board invites comments on Exposure Draft *Annual Improvements to IFRS Standards 2018–2020*, particularly on the questions set out below. Comments are most helpful if they:

(a) address the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative that the Board should consider, if applicable.

Questions for respondents

Proposed amendments (please answer individually for each proposed amendment)
Do you agree with the Board's proposal to amend the Standards and accompanying documents in the manner described in the Exposure Draft? If not, why not, and what do you recommend instead?

The Board is requesting comments only on matters addressed in this Exposure Draft. Respondents need not comment on all of the proposed amendments.

Deadline

The Board will consider all comments received in writing by **20 August 2019**.

How to comment

We prefer to receive comments electronically. However, you may submit comments using any of the following methods:

Electronically	Visit the 'Open for comment documents' page at: https://www.ifrs.org/projects/open-for-comment/
By email	Send to: commentletters@ifrs.org
By post	IFRS Foundation Columbus Building 7 Westferry Circus Canary Wharf London E14 4HD United Kingdom

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by good reason, for example, commercial confidence. Please see our website for details on this and on how we use your personal data.

Approval by the Board of Exposure Draft *Annual Improvements to IFRS Standards 2018–2020* published in May 2019

The Exposure Draft *Annual Improvements to IFRS Standards 2018–2020* was approved for publication by all 14 members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Martin Edelmann	
Françoise Flores	
Amaro Luiz de Oliveira Gomes	
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Ann Tarca	
Mary Tokar	

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Proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Introduction

Subsidiary as a first-time adopter

The Board proposes to require a subsidiary that elects to apply paragraph D16(a) of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs.

This proposed amendment would also apply to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

[Draft] Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 39AG is added and, in Appendix D, paragraph D1(h) and paragraph D16 and its heading are amended. New text is underlined and deleted text is struck through.

Effective date

...

39AG [Draft] *Annual Improvements to IFRS Standards 2018–2020* issued in [Month, Year] amended paragraphs D1(h) and D16. An entity shall apply that amendment for annual reporting periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

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Appendix D
Exemptions from other IFRSs

This appendix is an integral part of the IFRS.

D1 An entity may elect to use one or more of the following exemptions:

...

(h) assets, ~~and~~ liabilities and cumulative translation differences of subsidiaries, associates and joint ventures (paragraphs D16 and D17);

...

Assets, ~~and~~ liabilities and cumulative translation differences of subsidiaries, associates and joint ventures

D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets, ~~and~~ liabilities and cumulative translation differences at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in IFRS 10, that is required to be measured at fair value through profit or loss); or

(b) the carrying amounts required by the rest of this IFRS, based on the subsidiary's date of transition to IFRSs. These carrying amounts could differ from those described in (a):

(i) when the exemptions in this IFRS result in measurements that depend on the date of transition to IFRSs.

(ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in IAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

...

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Basis for Conclusions on the proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment. It summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendment. Individual Board members gave greater weight to some factors than to others.

BC1 Paragraph D16(a) of IFRS 1 *First-time Adoption of International Financial Reporting Standards* 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. Paragraph BC60 of IFRS 1 explains that the Board provided this exemption so that a subsidiary would not have to keep two parallel sets of accounting records based on different dates of transition to IFRSs.

BC2 Paragraph D16(a) applies only to assets and liabilities and not to components of equity. In addition, the relief in D16(a) is an exemption and exemptions in IFRS 1 cannot be applied by analogy to other items. Accordingly, a subsidiary that becomes a first-time adopter later than its parent would apply paragraphs D12–D13 of IFRS 1 to cumulative translation differences at its date of transition to IFRSs. Applying these paragraphs, the subsidiary might be required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs. The Board received a request to extend the exemption in paragraph D16(a) to cumulative translation differences reported by a subsidiary that becomes a first-time adopter later than its parent.

BC3 Based on the rationale in paragraph BC60 of IFRS 1, the Board proposes that measurement of the subsidiary's cumulative translation differences be subject to the exemption provided by paragraph D16(a). The Board concluded that extending the exemption to cumulative translation differences would reduce costs for first-time adopters without being detrimental to users of financial statements. This is because IFRS 1 already provides an exemption relating to cumulative translation differences and, thus, extending the exemption in paragraph D16(a) would not diminish the relevance of information reported by a subsidiary that becomes a first-time adopter later than its parent. The proposed amendment would also apply to an associate or a joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

BC4 The Board also considered, but decided against, extending the scope of the proposed amendment to other components of equity. The Board concluded that extending the exemption in paragraph D16(a) to other components of equity is unnecessary because, for example, no difference between the amounts reported by a subsidiary and its parent would arise for those components, or a subsidiary would be able to avoid any potential difference by applying (or not applying) some exemptions in IFRS 1.

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Previous first-time adopters

BC5 The Board considered, but decided against, permitting or requiring entities that previously applied IFRS 1 to apply the proposed amendment. This is because doing so would:

(a) provide no additional cost relief for entities. A subsidiary that previously applied IFRS 1 would already have calculated any difference between the amount it reports as cumulative translation differences and the amount reported in its parent's consolidated financial statements. That difference would not change until the parent disposes of part, or all, of its investment in the subsidiary.

(b) potentially confuse users of financial statements. Users would not expect entities that already apply IFRS Standards to be affected by an amendment to IFRS 1—a Standard that applies only when first adopting IFRS Standards.

Proposed amendment to IFRS 9 *Financial Instruments*

Introduction

Fees included in the '10 per cent' test for derecognition of financial liabilities

In determining whether to derecognise a financial liability that has been modified or exchanged, an entity assesses whether the terms are substantially different. The Board proposes to clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

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[Draft] Amendment to IFRS 9 *Financial Instruments*

Paragraph 7.1.8, paragraph 7.2.35 and its heading, and paragraph B3.3.6A are added. Paragraph B3.3.6 is amended. New text is underlined.

Chapter 7 Effective date and transition

7.1 Effective date

...

7.1.8 [Draft] *Annual Improvements to IFRS Standards 2018–2020* issued in [Month, Year] added paragraph 7.2.35 and its heading, added paragraph B3.3.6A and amended paragraph B3.3.6. An entity shall apply that amendment for annual reporting periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

7.2 Transition

...

Transition for Annual Improvements to IFRS Standards

7.2.35 An entity shall apply [Draft] *Annual Improvements to IFRS Standards 2018–2020* to financial liabilities that are modified or exchanged on or after the beginning of the first annual reporting period in which the entity first applies the amendment.

Appendix B
Application Guidance

This appendix is an integral part of the Standard.

...

Recognition and derecognition (Chapter 3)

...

Derecognition of financial liabilities (Section 3.3)

...

B3.3.6 For the purpose of paragraph 3.3.2, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. In determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

B3.3.6A If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

...

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Basis for Conclusions on the proposed amendment to IFRS 9 *Financial Instruments*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment. It summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendment. Individual Board members gave greater weight to some factors than to others.

BC1 Paragraph 3.3.2 of IFRS 9 *Financial Instruments* requires an entity to derecognise a financial liability and recognise a new financial liability when there is an exchange between an existing borrower and lender of debt instruments with substantially different terms, or when there is a substantial modification of the terms of an existing financial liability or a part of it. Paragraph B3.3.6 of IFRS 9 specifies that the terms are substantially different if the discounted present value of the cash flows under the new terms is 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). Paragraph B3.3.6 requires an entity to include 'any fees paid net of any fees received' in the 10 per cent test. The Board received a request to clarify which fees and costs an entity includes in that test.

BC2 The Board proposes to amend paragraph B3.3.6 to clarify that the reference to fees in the 10 per cent test includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. This clarification aligns with the objective of the 10 per cent test, that is, to quantitatively assess the significance of any difference between the old and new contractual terms on the basis of the changes in the contractual cash flows between the borrower and lender. Including cash flows paid to or received from parties other than the borrower and lender would go beyond assessing the difference between the old and new contractual terms.

BC3 The Board proposes that an entity apply the amendment to financial liabilities that are modified or exchanged on or after the date it first applies the amendment. In the Board's view, the expected benefits of retrospectively applying the proposed amendment would not outweigh the potential costs. The Board found that:

(a) retrospective application might be difficult and costly for some entities because it could require reassessment of all previous modifications and exchanges. There may also be little benefit from such reassessment because it might often result in no change in the previous assessment of the significance of the difference in contractual terms.

(b) financial liabilities are generally modified or exchanged on an ad hoc basis. Consequently, restating comparative information would be unlikely to provide users of financial statements with trend information.

BC4 Paragraph AG62 of IAS 39 *Financial Instruments: Recognition and Measurement* includes the same requirements as those in paragraph B3.3.6 of IFRS 9. If an entity's activities are predominantly connected with insurance and it has not previously applied any version of IFRS 9, the entity is permitted to apply

IAS 39 for annual reporting periods beginning before 1 January 2021.[1] The Board considered, but decided against, proposing an amendment to paragraph AG62 of IAS 39. This is because any such amendment would:

(a) apply only to a limited number of entities;

(b) apply only for a limited period of time (that is, from the effective date of the amendment until the effective date of IFRS 17 *Insurance Contracts*); and

(c) affect only those entities that include third-party fees in the 10 per cent test.

1 In November 2018 the Board tentatively decided that the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 *Financial Instruments* should be amended so that all entities would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

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Proposed amendment to Illustrative Examples accompanying IFRS 16 *Leases*

Introduction

Lease incentives

The Board proposes to amend Illustrative Example 13 accompanying IFRS 16 *Leases* to remove the illustration of payments from the lessor relating to leasehold improvements. The proposed amendment would remove potential for confusion regarding the treatment of lease incentives applying IFRS 16.

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[Draft] Amendment to Illustrative Examples accompanying IFRS 16 *Leases*

Part 1 of Illustrative Example 13 in paragraph IE5 is amended. New text is underlined and deleted text is struck through.

Lessee measurement (paragraphs 18–41 and B34–B41)

IE5 The following example illustrates how a lessee measures right-of-use assets and lease liabilities. It also illustrates how a lessee accounts for a change in the lease term.

Example 13—Measurement by a lessee and accounting for a change in the lease term

Part 1—Initial measurement of the right-of-use asset and the lease liability

Lessee enters into a 10-year lease of a floor of a building, with an option to extend for five years. Lease payments are CU50,000 per year during the initial term and CU55,000 per year during the optional period, all payable at the beginning of each year. To obtain the lease, Lessee incurs initial direct costs of CU20,000, of which CU15,000 relates to a payment to a former tenant occupying that floor of the building and CU5,000 relates to a commission paid to the real estate agent that arranged the lease. As an incentive to Lessee for entering into the lease, Lessor agrees to reimburse to Lessee the real estate commission of CU5,000~~ and Lessee's leasehold improvements of CU7,000~~.

At the commencement date, Lessee concludes that it is not reasonably certain to exercise the option to extend the lease and, therefore, determines that the lease term is 10 years.

The interest rate implicit in the lease is not readily determinable. Lessee's incremental borrowing rate is 5 per cent per annum, which reflects the fixed rate at which Lessee could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a 10-year term, and with similar collateral.

At the commencement date, Lessee makes the lease payment for the first year, incurs initial direct costs, receives the lease incentive~~s~~ from Lessor and measures the lease liability at the present value of the remaining nine payments of CU50,000, discounted at the interest rate of 5 per cent per annum, which is CU355,391.

continued...

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...continued

Example 13—Measurement by a lessee and accounting for a change in the lease term

Lessee initially recognises assets and liabilities in relation to the lease as follows.

Right-of-use asset	CU405,391	
Lease liability		CU355,391
Cash (lease payment for the first year)		CU50,000
Right-of-use asset	CU20,000	
Cash (initial direct costs)		CU20,000
Cash (lease incentive)	CU5,000	
Right-of-use asset		CU5,000

~~Lessee accounts for the reimbursement of leasehold improvements from Lessor applying other relevant Standards and not as a lease incentive applying IFRS 16. This is because costs incurred on leasehold improvements by Lessee are not included within the cost of the right-of-use asset.~~

...

Basis for Conclusions on the proposed amendment to Illustrative Examples accompanying IFRS 16 *Leases*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment. It summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendment. Individual Board members gave greater weight to some factors than to others.

BC1 The Board was informed about the potential for confusion in applying IFRS 16 *Leases* because of how Illustrative Example 13 accompanying IFRS 16 illustrates the requirements for lease incentives. In particular, it is unclear why, in Illustrative Example 13 based on the limited facts provided, the lessee does not consider the reimbursement relating to leasehold improvements to be a lease incentive as defined in IFRS 16.

BC2 The Board developed Illustrative Example 13 to illustrate requirements in IFRS 16 for initial and subsequent measurement of a right-of-use asset and lease liability. The inclusion in the example of payments from the lessor to the lessee (in relation to both real estate commission and leasehold improvements) was intended to illustrate when such payments meet the definition of lease incentives and when they do not. Illustrative Example 13 concludes that the lessee does not account for payments relating to leasehold improvements as a lease incentive but applies other relevant Standards. The explanation provided —'because costs incurred on leasehold improvements by Lessee are not included within the cost of the right-of-use asset'—implies that these payments are not associated with the lease. However, to be sufficiently precise, Illustrative Example 13 should have stated more clearly that these payments did not meet the definition of lease incentives in IFRS 16 (that is, the payments were not associated with the lease and were not the reimbursement or assumption by the lessor of costs of the lessee because, for example, the payments reimbursed the lessee for improvements made to the lessor's asset).

BC3 Because illustrative examples do not provide mandatory requirements, the requirements in IFRS 16 would prevail in case of any confusion or apparent conflict. Nonetheless, the Board proposes to amend Illustrative Example 13 to remove the potential for confusion from this example.

BC4 The Board is not proposing requirements for transition or an effective date because the proposed amendment affects material that accompanies, but is not part of, IFRS 16.

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Proposed amendment to IAS 41 *Agriculture*

Introduction

Taxation in fair value measurements

The Board proposes to remove the requirement in paragraph 22 of IAS 41 *Agriculture* for entities to exclude cash flows for taxation when measuring fair value applying IAS 41.

[Draft] Amendment to IAS 41 *Agriculture*

Paragraph 22 is amended and paragraph 65 is added. New text is underlined and deleted text is struck through.

Recognition and measurement

...

22 An entity does not include any cash flows for financing the assets~~, taxation,~~ or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

...

Effective date and transition

...

65 [Draft] *Annual Improvements to IFRS Standards 2018–2020* issued in [Month, Year] amended paragraph 22. An entity shall apply that amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

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Basis for Conclusions on the proposed amendment to *IAS 41 Agriculture*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment. It summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendment. Individual Board members gave greater weight to some factors than to others.

BC1 In May 2008 the Board amended IAS 41 *Agriculture* to remove the requirement for entities to use a pre-tax rate to discount cash flows when measuring fair value. Paragraph BC6 of IAS 41 explains that the Board did so on the grounds that a willing buyer would factor into the amount that it would be willing to pay to acquire an asset all incremental cash flows that would benefit the buyer, including expected income tax payments. Nonetheless, at that time the Board did not amend paragraph 22 of IAS 41 to delete the reference to cash flows for taxation. Consequently, when measuring fair value IAS 41 requires an entity to use pre-tax cash flows, but does not require the use of a pre-tax rate to discount those cash flows.

BC2 The Board proposes to amend paragraph 22 to remove the requirement to exclude cash flows for taxation when measuring fair value. This is because:

(a) such an amendment would align the requirements in IAS 41 on fair value measurement with those in IFRS 13 *Fair Value Measurement*. IFRS 13 neither prescribes the use of a single present value technique nor limits the use of present value techniques to measure fair value to only those discussed in that Standard. However, when using a present value technique paragraph B14 of IFRS 13 requires assumptions about cash flows and discount rates to be internally consistent. Depending on the particular facts and circumstances, applying IFRS 13, an entity applying a present value technique might measure fair value by discounting after-tax cash flows (using an after-tax discount rate) or pre-tax cash flows (at a rate consistent with those cash flows).

(b) it would appear the Board's intention in amending IAS 41 in 2008 was to permit entities to include tax cash flows in measuring fair value. Removing 'taxation' from paragraph 22 would be consistent with that intent.

BC3 The Board proposes that an entity would apply the amendment to fair value measurements on or after the date it first applies the amendment. In the Board's view, the expected benefits of retrospectively applying the proposed amendment would not outweigh the potential costs. The Board sees little benefit in entities determining fair value measurements retrospectively; making such determinations, even if possible without the use of hindsight, might be difficult and costly.

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