

STAFF PAPER

December 2019

IASB® meeting

Project	Annual Improvements to IFRS Standards 2018-2020		
Paper topic	Effective Date and Due Process		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Introduction and purpose

1. At its November 2019 meeting, the International Accounting Standards Board (Board) discussed feedback on the [Exposure Draft](#) *Annual Improvements to IFRS Standards 2018-2020*. The Exposure Draft included the following four proposed amendments:

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

The proposed amendment to IFRS 1 would require a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences (CTD) using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

- (b) **Fees included in the '10 per cent' test for derecognition of financial liabilities—Amendment to IFRS 9 *Financial Instruments***

The proposed amendment to IFRS 9 clarifies which fees to include in the '10 per cent' test when assessing whether to derecognise a financial liability. Applying the proposed amendment, an entity would include only fees paid or received between the entity (the borrower) and the lender,

including fees paid or received by either the entity or the lender on the other's behalf.

- (c) Lease incentives—Amendment to Illustrative Examples accompanying IFRS 16 *Leases*

The proposed amendment to Illustrative Example 13 accompanying IFRS 16 would remove from the example the illustration of the reimbursement of leasehold improvements by the lessor. The proposed amendment would resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives were illustrated in that example.

- (d) Taxation in fair value measurements—Amendment to IAS 41 *Agriculture*

The proposed amendment to IAS 41 would remove the requirement in paragraph 22 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. The proposed amendment would ensure consistency with the requirements in IFRS 13 *Fair Value Measurement*.

2. At its November 2019 meeting, the Board analysed feedback on the proposed amendments. The Board tentatively decided to:

- (a) finalise the proposed amendments to IFRS 9, Illustrative examples accompanying IFRS 16 and IAS 41 with no changes; and
- (b) amend IFRS 1 to permit, rather than require, a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure CTD for all foreign operations using the amount reported by the parent.

3. The purpose of this paper is:

- (a) to ask the Board whether it agrees with our recommendation with respect to the effective date of the amendments;
- (b) to confirm that the amendments meet the criteria for annual improvements;
- (c) to set out the steps in the [IFRS Foundation Due Process Handbook](#) that the Board has taken in developing the amendments;

- (d) to ask the Board to confirm it is satisfied that it has complied with the applicable due process requirements; and
- (e) to ask whether any Board member intends to dissent from the issuance of the amendments.

Structure of the paper

- 4. This paper is structured as follows:
 - (a) Effective date;
 - (b) Annual improvements criteria;
 - (c) Due process steps and permission for balloting:
 - (i) re-exposure;
 - (ii) intention to dissent;
 - (iii) confirmation of due process steps; and
 - (iv) proposed timetable for balloting and publication.
- 5. Appendix A to this paper outlines the actions taken by the Board to meet the due process requirements.

Effective date

- 6. The amendment to Illustrative Example 13 accompanying IFRS 16 would amend material that accompanies, but does not form part of, IFRS 16. Accordingly, effective date considerations are not relevant for this amendment.
- 7. With respect to the amendments to IFRS 1, IFRS 9 and IAS 41, the Board did not propose an effective date but proposed that earlier application be permitted.
- 8. Paragraph 6.35 of the Due Process Handbook states:

A Standard, or an amendment to a Standard, has an effective date and transition provisions. The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the

new requirements into their legal systems and those applying IFRS [Standards] have sufficient time to prepare for the new requirements.

9. The Board generally allows at least 12 to 18 months between the issuance of a new Standard or amendment and its effective date. We expect the Board to issue the amendments during the second quarter of 2020. The amendments are narrow in scope and generally require application to transactions or events that occur on or after the effective date. We think entities and jurisdictions will have sufficient time to apply and incorporate the amendments with an effective date of 1 January 2022—ie approximately 18 months after the end of the second quarter of 2020. Accordingly, we recommend that the Board require entities to apply the amendments for annual periods beginning on or after 1 January 2022.
10. The few respondents who commented on this aspect of the proposed amendments agree with the Board’s proposal to permit earlier application. Accordingly, we recommend permitting earlier application of the amendments to IFRS 1, IFRS 9 and IAS 41.

Question 1 for the Board

1. **Effective date**—does the Board agree with our recommendation to require entities to apply the amendments to IFRS 1, IFRS 9 and IAS 41 for annual periods beginning on or after 1 January 2022, with earlier application permitted?

Annual Improvements criteria

11. Paragraphs 6.11–6.14 of the Due Process Handbook include the criteria for annual improvements. To meet these criteria, an amendment would need to be limited to:
 - (a) clarifying the wording in a Standard; or
 - (b) correcting relatively minor unintended consequences, oversights or conflicts between existing requirements of Standards.

12. The Board considered these criteria in developing the Exposure Draft and concluded that the proposed amendments met the criteria for annual improvements.¹
13. At its November 2019 meeting, the Board tentatively decided to finalise the proposed amendments to IFRS 9, Illustrative Examples accompanying IFRS 16 and IAS 41 with no changes—we continue to think these amendments meet the criteria for annual improvements.
14. In addition, the Board modified the proposed amendment to IFRS 1 to permit, rather than require, a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure CTD for all foreign operations using the amount reported by the parent. This modification does not change the nature of the amendment and, thus, we continue to think the amendment meets the criteria for annual improvements.
15. Accordingly, we recommend that the Board finalise these amendments as part of *Annual Improvements to IFRS Standards 2018–2020*.

Due process steps and permission for balloting

Re-exposure

16. We recommend that the Board not re-expose these amendments. In making this recommendation, we considered the requirements in paragraphs 6.25–6.29 of the Due Process Handbook.
17. At its November 2019 meeting, the Board tentatively decided to finalise the proposed amendments to IFRS 9, Illustrative Example 13 accompanying IFRS 16 and IAS 41 with no changes. In addition, the Board modified the proposed amendment to IFRS 1 to permit, rather than require, a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure CTD for all foreign operations using the amount reported by the parent.

¹ See [Agenda Paper 12D](#) of the Board's December 2018 meeting for more information.

18. In reaching its decisions, the Board considered feedback from all comment letters received on the Exposure Draft². The Board changed the proposed amendment to IFRS 1 in response to feedback—we think the change does not constitute a fundamental change on which respondents have had no opportunity to comment. We also think it is unlikely that re-exposure would reveal new information or feedback not already considered by the Board.

Intention to dissent

19. In accordance with paragraph 6.23 of the Due Process Handbook, we are asking whether any Board member intends to dissent from the issuance of any of the amendments expected to be included in the Annual Improvements.

Confirmation of due process steps

20. We think the Board has undertaken all the due process activities identified as being required in the Due Process Handbook and, thus, is able to finalise the amendments. Appendix A to this paper summarises the due process steps taken in developing the amendments—the applicable due process steps to date for issuing the amendments have been completed.
21. We request permission to start the balloting process if the Board is satisfied that (a) it has been provided with sufficient analysis, and (b) has undertaken appropriate consultation and due process to support issuing the amendments.

Proposed timetable for balloting and publication

22. We plan to begin the balloting process in the near term and expect to issue the Annual Improvements in the second quarter of 2020.

² Comment letters can be accessed [here](#)

Questions 2–5 for the Board

2. **Annual Improvements criteria**—does the Board agree that the amendments meet the criteria for inclusion in *Annual Improvements to IFRS Standards 2018–2020*?
3. **Re-exposure**—does the Board agree with our recommendation not to re-expose the amendments?
4. **Dissent**—does any Board member intend to dissent from the issuance of *Annual Improvements to IFRS Standards 2018-2020*?
5. **Permission to ballot**—is the Board satisfied it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for *Annual Improvements to IFRS Standards 2018-2020*?

Appendix—Actions taken to meet the due process requirements

Step	Required / Optional	Actions
Consideration of information gathered during consultation		
The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	Required	<p>All comment letters received by the Board (59 comment letters) have been posted here.</p> <p>https://www.ifrs.org/projects/work-plan/subsidiary-as-a-first-time-adopter/comment-letters-projects/ed-annual-improvements/#comment-letters</p>
Board and IFRS Interpretations Committee (Committee) meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	<p>The Board considered feedback at its November 2019 meeting. The staff papers are publicly available and can be found at the following links:</p> <ul style="list-style-type: none"> (a) IFRS 1—Agenda Paper 12F (b) IFRS 9—Agenda Paper 12G (c) Illustrative Example 13 accompanying IFRS 16—Agenda Paper 12H (d) IAS 41—Agenda Paper 12I <p>The project webpages have up to date information about all technical papers related to the project:</p> <ul style="list-style-type: none"> • Subsidiary as a first-time adopter • Fees in the '10 per cent' test for derecognition of financial liabilities • Lease incentives • Taxation in fair value measurements
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	<p>Annual improvements are, by definition, clarifying or correcting in nature, well defined and narrow in scope.</p> <p>The Board has considered the consequences of the proposed changes for each amendment—the amendments are expected to reduce or eliminate diversity in practice. Because of the narrow scope and clarifying nature of the amendments, we have not prepared a separate effects analysis.</p>
Round-table and outreach meetings to promote debate and hear views on proposals that are published for public comment	Optional	Not considered necessary for Annual Improvements.

Finalisation		
Due process steps are reviewed by the Board.	Required	This step will be met by this Agenda Paper.
A check is performed to ensure that each amendment included in the package meets the Annual Improvements criteria.	Required	Paragraphs 11–15 of this paper provide our analysis of, and recommendation on, the criteria for annual improvements.
Need for re-exposure of a Standard is considered.	Required	Paragraphs 16–18 of this paper provide our analysis of, and recommendation on, re-exposure.
The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	Paragraphs 6–10 of this paper provide our analysis of, and recommendation on, the effective date.
Drafting		
Drafting quality assurance steps are adequate.	Required	To be completed in due course. The translations, taxonomy and editorial teams will review the pre-ballot draft. We intend to send a draft of the amendments to external parties for review before finalisation. This process allows external parties to review and report back to the staff on the clarity and understandability of the draft.
Publication		
Press release to announce the final Standard.	Required	To be completed in due course. A press release will be published with the amendments.
A Feedback Statement is provided which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received.	Required	Not considered necessary because the amendments are clarifying or correcting in nature, well-defined and narrow in scope. According to paragraph 6.38 of the Due Process Handbook, a Feedback Statement is required for all new IFRS Standards and major amendments. The Basis for Conclusions on the amendments would, to the extent necessary, explain how the Board has responded to feedback.
Standard is published.	Required	The amendments will be made available on our website when published.