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International Accounting Standards Board  
7 Westferry Circus, Canary Wharf  
London E14 4HD  
United Kingdom

[XX Month 2019]

Dear Mr Hoogervorst,

**Re: Exposure Draft ED/2019/2 *Annual Improvements to IFRS Standards 2018-2020***

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft ED/2019/2 *Annual Improvements to IFRS Standards 2018-2020* issued by the IASB on 21 May 2019 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG generally agrees with the proposals in the ED and considers that these minor changes will improve the consistency and understandability of the IFRS standards concerned. However, EFRAG proposes that:

- (a) *Issue 2: IAS 39 Financial Instruments: Recognition and Measurement* be amended in the same way as the amendment proposed to IFRS 9 *Financial Instruments*;
- (b) *Issue 3: additional guidance to be added to IFRS 16 Leases on where the reimbursement of leasehold improvements may be considered as a lease incentive; and*
- ~~(b)~~(c) *Issue 4: a broader review of the guidance in IAS 41 Agriculture dealing with fair value measurement is considered to ensure consistency with IFRS 13 Fair Value Measurement.*

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Galina Borisova, Ricardo Torres or me.

Yours sincerely,

Jean-Paul Gauzès  
**President of the EFRAG Board**

## Appendix - EFRAG's responses to the questions raised in the ED

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

#### Question 1: Proposed amendments to IFRS 1

- 2 Do you agree with the IASB's proposal to amend IFRS 1 and accompanying documents in the manner described in the Exposure Draft?
- 3 If not, why not, and what do you recommend instead?

#### EFRAG's response

**EFRAG agrees with the IASB's proposal to amend IFRS 1 by extending the optional exemption in paragraph D16(a) to cumulative translation differences of a subsidiary that becomes a first-time adopter later than its parent.**

- 4 EFRAG supports the IASB's proposal to extend the optional exemption in paragraph D16(a) of IFRS 1 to cumulative translation differences of a subsidiary that becomes a first-time adopter later than its parent. This amendment will increase the internal consistency of IFRS 1, reduce the costs of the first-time adopters of IFRSs and not be detrimental to users of financial statements. EFRAG also supports this optional exemption being 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.
- 5 In addition, EFRAG supports the IASB's proposal to permit earlier application as this makes the relief available before the effective date.

### Issue 2 - IFRS 9 *Financial Instruments*: Fees included in the '10 per cent' test for derecognition of financial liabilities

#### Question 2: Proposed amendments to IFRS 9

- 6 Do you agree with the IASB's proposal to amend IFRS 9 and accompanying documents in the manner described in the Exposure Draft?
- 7 If not, why not, and what do you recommend instead?

#### EFRAG's response

**EFRAG agrees with the IASB's proposal to amend IFRS 9 by clarifying what fees an entity should include in a '10 per cent' test for derecognition.**

**EFRAG considers that a similar amendment should be made to IAS 39.**

- 8 EFRAG supports the IASB's proposal.
- 9 EFRAG considers that the proposal will clarify the application of the '10 per cent' test for derecognition consistently with the IASB's original purpose in including the '10 per cent' test in IFRS 9. The proposed clarification will also avoid diversity in practice.
- 910 [EFRAG considers that the phrase in paragraph B3.3.6 "including fees paid or received by either the borrower or the lender on the other's behalf" is unclear. We recommend that an example of such fees is provided to avoid the implication that a third party is involved.](#)

- ~~40~~<sup>11</sup> EFRAG notes the IASB's decision not to propose an amendment to IAS 39, on the basis of the limited applicability of IAS 39. However, EFRAG recommends that IAS 39 and IFRS 9 remain consistent where they have equivalent provisions. Consequently, EFRAG proposes that a similar amendment is made to IAS 39.
- ~~44~~<sup>12</sup> Although EFRAG generally supports retrospective application, EFRAG notes that the IASB's research indicates that the benefits of the retrospective application will not outweigh the costs and will not, in majority of cases, change the outcome of the '10 per cent' test. Therefore, in this case, EFRAG supports prospective application of the amendments.

### Issue 3 - Illustrative Examples accompanying IFRS 16 Leases: Lease incentives

#### Question 3: Proposed amendments to Illustrative Examples accompanying IFRS 16

- ~~42~~<sup>13</sup> Do you agree with the IASB's proposal to amend Illustrative Examples accompanying IFRS 16 in the manner described in the Exposure Draft?
- ~~43~~<sup>14</sup> If not, why not, and what do you recommend instead?

#### EFRAG's response

**EFRAG notes that this amendment relates to the Illustrative Examples and Illustrative Examples are not subject to endorsement in Europe. However, the confusion that this example has generated indicates that the IASB should clarify the facts and circumstances where the reimbursement of leasehold improvements by the lessor to lessee may be considered as a lease incentive.**

- ~~44~~<sup>15</sup> EFRAG notes that interpretation of the reimbursement of the leasehold improvements by the lessor to the lessee in IE13 has generated confusion which should be addressed by the proposed amendment.
- ~~45~~<sup>16</sup> However, given the need to address this confusion, EFRAG considers that just removing the reference to the reimbursement of leasehold improvements from IE13 is insufficient and that the explanation provided by the IASB in paragraph BC2 does not resolve the confusion. In EFRAG's view, further clarification of when the reimbursement of leasehold improvements by the lessor constitute a lease incentive under IFRS 16 is required to remove any future potential for confusion.
- ~~46~~<sup>17</sup> In addition, EFRAG notes that this question leads to a broader issue of whether any leasehold improvements and restoration costs should be included in a right-of-use asset under paragraph 24 of IFRS 16.
- ~~47~~<sup>18</sup> EFRAG proposes that IFRS 16 should include the facts and circumstances where the reimbursement of the leasehold improvements by the lessor to lessee may be considered to be a lease incentive either in the Basis for Conclusions or directly in paragraph IE13.

### Issue 4 - IAS 41 Agriculture: Taxation in fair value measurements

#### Question 4: Proposed amendments to IAS 41

- ~~48~~<sup>19</sup> Do you agree with the IASB's proposal to amend IAS 41 and accompanying documents in the manner described in the Exposure Draft?
- ~~49~~<sup>20</sup> If not, why, and what alternative do you propose?

EFRAG's response

EFRAG agrees with the IASB's proposal to amend IAS 41 by excluding the reference to "taxation" from paragraph 22. EFRAG also suggests the IASB consider a broader review of the guidance in IAS 41 dealing with fair value measurement to ensure consistency between the two standards.

21 EFRAG supports the IASB's proposal to make the fair value requirements of IAS 41 consistent with the requirements of IFRS 13 by removing the requirement in paragraph 22 of IAS 41 to exclude cash flows for taxation when measuring fair value applying IAS 41.

22 However, EFRAG suggests the IASB to consider a broader review of the guidance in IAS 41 that deals with fair value measurement (e.g. IAS 41, paragraphs 16-25) to ensure that there is no contradiction between the two standards.

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~~21~~ ~~EFRAG considers that it will bring clarity to the fair value requirements of IAS 41 and will also make IAS 41 consistent with the requirements of IFRS 13.~~

~~22~~23 EFRAG supports the IASB's proposal for prospective application of the amendment with earlier application permitted, EFRAG agrees with the IASB's reasoning that retrospective application will bring little or no added value to the users of financial statements and will be costly for preparers.