EFRAG
Financial reporting

~~Draft~~ Comment Letter

~~**You can submit your comments on EFRAG's draft comment letter by using the 'Express your views' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.**~~

~~**Comments should be submitted by 28 November 2023.**~~

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

XX December 2023

Dear Mr Barckow,

Re: Exposure Draft *Annual Improvements—Volume 11*

On behalf of ~~the European Financial Reporting Advisory Group (~~EFRAG~~)~~, I am writing to comment on the Exposure Draft IASB/AI/ED/2023/1 *Annual Improvements - Volume 11,* issued by the IASB on 12 September 2023 (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 welcomes the package of the annual improvements included in the ED, which mainly consists of limited changes that either clarify the wording in an IFRS Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements of the IFRS Accounting Standards.

EFRAG agrees with the majority of the proposed amendments and considers that they would help to improve consistent application and understandability of the IFRS Accounting Standards.

However, EFRAG ~~disagrees with the proposed amendments to IFRS 9 on derecognition of lease liabilities and~~ recommends the IASB to clarify the interaction between IFRS 9 and IFRS 16 as part of a narrow-scope standard-setting project and does not recommend to amend paragraph 2.1(b)(ii) as part of the Annual Improvements – Volume 11.~~.~~

Regarding the proposed amendment to IFRS 10 on de facto agents, EFRAG recommends the IASB to reconsider whether a look-up approach (i.e., including those that direct the activities of the investor) could ever be used for assessing if a party is a de facto agent for the purposes of the entity's consolidated financial statements.

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,~~ Monica Franceschini or me.

Yours sincerely,

Wolf Klinz,

President of the EFRAG FRB

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

~~Question 1 -~~ Proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Hedge accounting by a first-time adopter

~~*Notes to constituents – Summary of proposals in the ED*~~

~~*Stakeholders informed the IASB about potential confusion arising from an inconsistency between the wording of paragraph B6 of IFRS 1 First-time Adoption of International Financial Reporting Standards and the requirements for hedge accounting in IFRS 9 Financial Instruments. Paragraph B6 of IFRS 1 refers to **'conditions'** for hedge accounting, whereas Section 6.4 of IFRS 9 sets out **'qualifying criteria'** for hedge accounting. Paragraph B6 of IFRS 1 was originally written to be consistent with the requirements for hedge accounting in IAS 39 Financial Instruments: Recognition and Measurement.*~~

~~*The IASB proposes to amend paragraphs B5–B6 of IFRS 1 by replacing the word 'conditions' with 'qualifying criteria' and adding cross-references to paragraphs 6.4.1(a)–(c) of IFRS 9.*~~

~~*IFRS 9, issued in July 2014, amended paragraphs B1–B6 of IFRS 1. These amendments, among others, replaced references to IAS 39 Financial Instruments: Recognition and Measurement with references to IFRS 9 and, in paragraph B5 of IFRS 1, updated examples of hedging relationships that do not qualify for hedge accounting applying IFRS 9.*~~

~~*Both IFRS 9 and IAS 39 remain in effect for hedge accounting, depending on an entity's accounting policy choice when first applying IFRS 9. However, first-time adopters of IFRS Accounting Standards applying IFRS 1 and IFRS 9 do not have an option to apply the hedge accounting requirements in IAS 39 and therefore apply IFRS 9.*~~

~~*Paragraphs B5–B6 of IFRS 1 were originally written to be consistent with the requirements for hedge accounting in IAS 39. On transition, an entity applied what some in practice refer to as a 'two-step approach' to hedge accounting—that is:*~~

~~*applying paragraph B5 of IFRS 1, an entity did not reflect in its statement of financial position at the date of transition to Accounting Standards a hedging relationship of a type that did not qualify for hedge accounting in IAS 39; and*~~

~~*applying paragraph B6 of IFRS 1, if a hedging relationship was of a type that qualified for hedge accounting in IAS 39, but an entity did not meet the conditions for a hedging relationship to apply hedge accounting, the entity discontinued hedge accounting immediately after the transition.*~~

~~*When paragraphs B5–B6 of IFRS 1 included references to IAS 39, paragraph B5 focused on 'eligibility' of hedging instruments or hedged items, while paragraph B6 focused on 'conditions'—formal designation and documentation, and hedge effectiveness. IFRS 9 includes all three of these—eligibility, formal designation and documentation, and hedge effectiveness—as part of 'qualifying criteria'.*~~

~~*Consequently, if read literally, there is an inconsistency between the requirements in paragraph B6 of IFRS 1 and the requirements in paragraph 6.4.1 of IFRS 9: IFRS 9 sets out 'qualifying criteria' rather than 'conditions' for hedge accounting.*~~

~~*When issuing IFRS 9, the IASB did not intend to change the requirements—or the two-step approach—in paragraph B5 or B6 of IFRS 1. Paragraph B5 remains focused on 'eligibility' of a hedging relationship, and paragraph B6 remains focused on the other aspects of 'qualifying criteria'. The IASB retained the existing reference to 'conditions' for*~~

~~*hedge accounting in paragraph B6 of IFRS 1 but did not intend to do so—this was a minor oversight when IFRS 1 was amended by IFRS 9.*~~

~~*To avoid a misperception that the requirements in paragraphs B5–B6 of IFRS 1 are incomplete or override the qualifying criteria for hedge accounting in IFRS 9, and to leave unchanged the application of the requirements in paragraph B6 of IFRS 1, the IASB proposes to add:*~~

~~*a cross-reference to paragraph 6.4.1(a) of IFRS 9 in paragraph B5 of IFRS 1; and*~~

~~*a cross-reference to paragraph 6.4.1(b)–(c) of IFRS 9 in paragraph B6 of IFRS 1.*~~

~~In the IASB's view, adding the cross-references would improve the accessibility and understandability of the requirements.Question 1~~

Do you agree with the IASB's proposals to amend ~~IFRS 1~~the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft?

If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

EFRAG's response

1 EFRAG believes that replacing 'conditions' with 'qualifying criteria' would clarify the wording in paragraph B6 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* and correct a prior minor oversight. In addition, adding cross-references to the requirements in IFRS 9 Financial Instruments in paragraph B5 and B6 would improve navigability and accessibility of IFRS Accounting Standards.

2 Furthermore, EFRAG highlights that such amendments would maintain consistency between the requirements of IFRS 1 and IFRS 9 and would not constitute a new (or change an existing) principle or requirement.

3 Therefore, EFRAG agrees with the IASB proposal to amend paragraphs B5–B6 of IFRS 1 by replacing the word 'conditions' with 'qualifying criteria' and adding cross-references to paragraphs 6.4.1(a)–(c) of IFRS 9.

~~Question 2~~Proposed amendments to IFRS 7 *Financial Instruments: Disclosures* ~~and to Guidance on implementing IFRS 7~~

~~*Notes to constituents – Summary of proposals in the ED*~~

~~IFRS 7 -~~ Gain or loss on derecognition ~~(Paragraph B38)~~

~~*The IASB proposes to amend paragraph B38 of IFRS 7 Financial Instruments: Disclosures to update an obsolete cross-reference.*~~

~~*In May 2011 the IASB issued IFRS 13 Fair Value Measurement and made consequential amendments to several IFRS Accounting Standards. The amendments included the deletion of paragraphs 27–27B of IFRS 7. However, the IASB omitted to delete from paragraph B38 of IFRS 7 an obsolete reference to paragraph 27A of IFRS 7.*~~

~~*Paragraphs 27–27B of IFRS 7 had set out disclosure requirements relating to fair value. In particular, paragraph 27A described a fair value hierarchy and how an entity would classify fair value measurements within each level of the hierarchy. The IASB observed*~~

~~*that the requirements in paragraphs 72–73 of IFRS 13 effectively replaced the requirements in paragraph 27A of IFRS 7.*~~

~~*The IASB therefore proposes to amend paragraph B38 of IFRS 7 to replace:*~~

~~*the reference to paragraph 27A of IFRS 7 with a reference to paragraphs 72–73 of IFRS 13; and*~~

~~*the phrase 'inputs that were not based on observable market data' with 'unobservable inputs' to align that paragraph with the wording in paragraph 72 of IFRS 13.*~~

~~*Guidance on implementing IFRS 7*~~

~~*Introduction*~~

~~*The IASB proposes to amend paragraph IG1 to add a statement clarifying that the guidance does not illustrate all the requirements in IFRS 7.*~~

~~*Disclosure of deferred difference between fair value and transaction price*~~

~~*The IASB proposes to amend paragraph IG14 of the Guidance on implementing IFRS 7 to improve its consistency with paragraph 28 of IFRS 7.*~~

~~*Paragraph B5.1.2A(b) of IFRS 9 requires an entity to defer a difference between the fair value at initial recognition of a financial instrument and its transaction price, if the fair value is neither evidenced by a quoted price in an active market for an identical instrument nor based on a valuation technique that uses only data from observable markets. The entity recognises the deferred difference in profit or loss in subsequent periods only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the instrument. Paragraph 28 of IFRS 7 requires an entity to disclose information, including its accounting policy and the aggregate amount yet to be recognised in profit or loss, about the deferred difference between fair value and the transaction price.*~~

~~*When the IASB issued IFRS 13 in May 2011, it amended paragraph 28 of IFRS 7 to align the wording of that paragraph with the concepts and terminology used in IFRS 13; however, the IASB omitted to amend paragraph IG14, which illustrates some of the disclosure requirements in paragraph 28 of IFRS 7. As a result, some of the wording in paragraph IG14 is not consistent with the wording in paragraph 28.*~~

~~*The IASB proposes to resolve these inconsistencies by amending paragraph IG14 to conform its wording with the requirements in paragraph 28 and with the concepts and terminology used in IFRS 9 and IFRS 13. The proposed amendments would also improve the internal consistency of the example in paragraph IG14.*~~

~~*Credit risk disclosures*~~

~~*The IASB proposes to amend paragraph IG20B of the Guidance on implementing IFRS 7 to simplify its wording.*~~

~~*Stakeholders informed the IASB about a potential lack of clarity in paragraph IG20C because that paragraph fails to state that the example does not illustrate all the requirements in paragraph 35M of IFRS 7.*~~

~~*Paragraph IG20B—which illustrates the application of the requirements in paragraphs 35H–35I of IFRS 7 - states: 'this example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired.' Stakeholders informed*~~

~~*the IASB that this statement might lead readers to expect that paragraph IG20C would also state that it does not illustrate particular requirements in paragraph 35M of IFRS 7.*~~

~~*The IASB proposes to resolve the lack of clarity in paragraph IG20C and the inconsistency between it and paragraph IG20B by amending:*~~

~~*paragraph IG1 to state that the implementation guidance accompanying IFRS 7 does not illustrate all the requirements in IFRS 7; and*~~

~~*paragraph IG20B to simplify the explanation of the aspects of the requirements that are not illustrated.*~~

~~**Question 2**~~ Do you agree with the IASB's proposals to amend the IFRS Accounting Standards ~~the IFRS 7~~ and accompanying guidance in the manner described in this Exposure Draft? If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

EFRAG's response

~~*Amendments to IFRS 7*~~

4 EFRAG agrees with the IASB's proposal to amend paragraph B38 of IFRS 7 *Financial Instruments: Disclosures* to replace the reference to paragraph 27A of IFRS 7 with a reference to paragraphs 72–73 of IFRS 13 *Fair Value Measurement*, which effectively replaced the requirements in paragraph 27A of IFRS 7 moved to IFRS 13 in 2011.

5 Furthermore, EFRAG supports the IASB's proposal to align the wording in paragraph B38 of IFRS 7 with the wording in paragraph 72 of IFRS 13 which would improve consistency between IFRS Accounting Standards.

Proposed amendments to Guidance on implementing IFRS 7

Amendments to Guidance on implementing IFRS 7

Do you agree with the IASB's proposals to amend the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft? If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

EFRAG's response

6 EFRAG notes that implementation guidance is not a part of the IFRS Accounting Standards and, hence, is not endorsed in the EU.

7 EFRAG welcomes the proposed amendments to paragraph IG14 as they would align the wording of that paragraph with the wording in paragraph 28 of IFRS 7 and consequently with the concepts and terminology used in IFRS 9 and IFRS 13, to which this implementation guidance refers to.

8 EFRAG further notes that paragraph 35M(c) of IFRS 7 requires separate disclosures of quantitative and qualitative information about amounts arising from expected credit losses for financial assets that are purchased or originated credit-impaired ('POCI'). Paragraphs IG20B and IG20C do not include examples of disclosures for POCI assets required by paragraph 35M(c) of IFRS 7. However, this fact is only specifically stated in the paragraph IG20B. Nevertheless, EFRAG notes that paragraph IG20A already states that *"these illustrations do not address all possible ways of applying the disclosure requirements"*.

9 EFRAG questions the necessity to state in every example all the requirements it does not address. Nevertheless, on balance, EFRAG agrees with the IASB proposal to make a generic statement in paragraph IG1, *that "the guidance does not illustrate all the requirements in IFRS 7..."* which is reinforced by paragraph IG20A. EFRAG also agrees with a minor change proposed to the paragraph IG20B.

EFRAG welcomes the proposed amendments to paragraph IG14 as it would align the wording of that paragraph with the wording used in paragraph 28 of IFRS 7 (and consequently with the concepts and terminology used in IFRS 9 and IFRS 13), to which this implementation guidance refers to.

~~Question 3 -~~ Proposed amendments to IFRS 9 *Financial Instruments*

~~*Notes to constituents – Summary of proposals in the ED*~~

Derecognition of lease liabilities

~~*The IASB proposes to amend paragraph 2.1(b)(ii) of IFRS 9 Financial Instruments to add a cross-reference to paragraph 3.3.3 of that Standard. The purpose of that proposed amendment is to resolve potential confusion for a lessee applying the derecognition requirements in the Standard.*~~

~~*Stakeholders informed the IASB about a lack of clarity around a lessee's accounting for a derecognition of a lease liability. In IFRS 9, paragraph 2.1(b)(ii) includes a cross-reference to paragraph 3.3.1, but not to paragraph 3.3.3. The lack of a cross-reference to paragraph 3.3.3 can affect the corresponding adjustment a lessee makes when its lease liability has been extinguished and the lessee removes that liability from its statement of financial position. Some stakeholders informed the IASB that it is not clear whether a lessee recognises the gain or loss on extinguishment of the lease liability in profit or loss in accordance with paragraph 3.3.3 of IFRS 9, or in another manner - such as by making a corresponding adjustment to the right-of-use asset recognised in accordance with IFRS 16 Leases.*~~

~~*The IASB intended a lessee to apply, in sequence, paragraphs 3.3.1 and 3.3.3, and the lack of a cross-reference to paragraph 3.3.3 in paragraph 2.1(b)(ii) was an oversight. The IASB therefore proposes to amend paragraph 2.1(b)(ii) to add a cross-reference to paragraph 3.3.3.*~~

~~*The IASB proposes that a lessee apply the amendment to paragraph 2.1(b)(ii) to lease liabilities that are extinguished on or after the beginning of the annual reporting period in which the lessee first applies the amendment. In the IASB's view, the expected benefits of a lessee retrospectively applying the proposed amendment would not outweigh the potential costs.*~~

~~*Transaction price*~~

~~*The IASB proposes to amend paragraph 5.1.3 and Appendix A of IFRS 9 to clarify the use of the term 'transaction price' in the Standard.*~~

~~*Stakeholders informed the IASB about potential confusion arising from a reference in Appendix A of IFRS 9 to the definition of 'transaction price' in IFRS 15 Revenue from Contracts with Customers. The term 'transaction price' is used in some paragraphs of IFRS 9 with a meaning that is not necessarily consistent with the definition of that term in IFRS 15.*~~

~~*The IASB observed two ways in which IFRS 9 uses the term 'transaction price':*~~

~~*as defined in IFRS 15 - in paragraph 5.1.3 in the context of trade receivables; and*~~

~~*as the fair value of the consideration given or received - in paragraphs 5.1.1A, B5.1.1 and B5.1.2A of IFRS 9.*~~

~~*The two uses of 'transaction price' in IFRS 9 are not the same because:*~~

~~*as set forth in paragraph 47 of IFRS 15, an entity considers the terms of a contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. In other words, transaction price as defined in IFRS 15 is an entity-specific measurement.*~~

~~*as set forth in paragraph 2 of IFRS 13 Fair Value Measurement, the fair value (of the consideration received or paid) is a market-based measurement, not an entity-specific measurement.*~~

~~*The requirements in IFRS 9 state clearly when 'transaction price' is used as defined in IFRS 15 and when it is not. In the IASB's view, retaining a reference to 'transaction price' (as defined in IFRS 15) in Appendix A of IFRS 9 is unnecessary and potentially confusing. As a result, the IASB proposes to delete the reference.*~~

~~**Additionally, stakeholders informed the IASB about a lack of consistency between paragraph 5.1.3 of IFRS 9 and the requirements in IFRS 15. An entity applying paragraph 105 of IFRS 15 presents any unconditional rights to consideration separately as a receivable, but the receivable might be measured, at initial recognition, at an amount that is not necessarily the same as the amount of the transaction price recognised as revenue (as illustrated in Examples 39 and 40 accompanying IFRS 15). The IASB therefore proposes to amend paragraph 5.1.3 of IFRS 9 to replace 'their transaction price (as defined in IFRS 15)' with 'the amount determined by applying IFRS 15'.Question 3**~~

Do you agree with the IASB's proposals to amend the IFRS Accounting Standards~~IFRS 9~~ and accompanying guidance in the manner described in this Exposure Draft?

If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

EFRAG's response

~~*Derecognition of lease liabilities*~~

10 EFRAG notes that the proposed amendment arose from a submission to the IFRS Interpretation Committee ("IFRS IC") relating to the lessee accounting for rent concession through a lease contract modification (please refer to the submission "Lessee accounting for lease payments forgiven (rent concession)" discussed in March 2023). During the discussion some IFRS IC members expressed concerns about the conclusion proposed by the IASB Staff related to IFRS 16 *Leases* but approved the conclusion related to IFRS 9. Therefore, EFRAG highlights that this proposed amendment would continue to not address the interaction between IFRS 9 and IFRS 16 when the extinguishment of a lease liability arises from a lease modification which only involve a change in the consideration paid.

11 As explained in Agenda paper 12A of the May 2023 IASB meeting, there is more than one way to read the requirements about how a lessee makes a corresponding adjustment when its lease liability has been extinguished and it removes that liability from its statement of financial position applying paragraph 3.3.1 of IFRS 9. The lessee could either:

(a) recognise the gain or loss in profit or loss applying paragraph 3.3.3 of IFRS 9, but is not required to do so because paragraph 2.1(b)(ii) of IFRS 9 does not refer to paragraph 3.3.3 of IFRS 9, or

(b) make a corresponding adjustment to its right-of-use asset recognised applying IFRS 16.

12 In EFRAG's view, the proposed amendment will not resolve the conflict between IFRS 9 and IFRS 16 because a change in a lease arrangement that results (solely or together with other changes) in a lease liability (or a part thereof) being extinguished in accordance with IFRS 9 meets the definition of a lease modification in Appendix A of IFRS 16[1].

13 EFRAG further notes that paragraph 46(b) of IFRS 16 requires that lessees to account for the remeasurement of a lease liability as a corresponding adjustment to the right-of-use asset, with the only exception of lease modifications that result in a full or partial termination of a lease as illustrated in Illustrative Example 19 of IFRS 16.

14 Some are of the view, that applying IFRS 16 by precedence to IFRS 9 is consistent with applying the standard most relevant to a particular transaction (a lease) and such approach results in an accounting outcome faithfully representing the substance of a lease modification and closely aligning gain or loss recognition with a corresponding change in the lessee's rights and obligations under the lease for the reasons explained in paragraph BC204 of IFRS 16.

15 EFRAG also notes that not all extinguishments of financial liabilities are accounted for as an immediate gain or loss in profit or loss. For example, any discount granted by a supplier of goods to a purchaser would normally be accounted for as a reduction in the cost of inventories by the purchaser rather than as a gain in profit or loss in accordance with paragraph 3.3.3 of IFRS 9.

16 In addition, in the view of some, the proposed amendment may even make the conflict more evident as many have interpreted paragraph 2.1(b)(ii) of IFRS 9 as currently worded to leave out intentionally (rather than being an oversight) any reference to paragraph 3.3.3 of IFRS 9: in their view, paragraph 3.3.1 of IFRS 9 is helpful to provide guidance as to *when* part of a lease liability is extinguished before the lease modification requirements of IFRS 16 are applied.

17 Finally, EFRAG also questions whether the proposed amendment meet the criteria set out in paragraphs 6.10 – 6.11 of the IASB Due Process Handbook because, in a number of stakeholders' view, it is not addressing an oversight or relatively minor unintended consequences.

18 Therefore, EFRAG ~~disagrees with the proposed amendment and~~ recommends the IASB to clarify the interaction between IFRS 9 and IFRS 16 as part of a narrow-scope standard-setting project and does not recommend to amend paragraph 2.1(b)(ii) as part of the Annual Improvements – Volume 11.

Proposed amendments to IFRS 9 *Financial Instruments*

Transaction price

Do you agree with the IASB's proposals to amend the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft?

If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

[1] A change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

EFRAG's response

19 EFRAG notes that this issue, even if not included in the EFRAG draft comment letter in response to the IASB's Request for Information - *Post-Implementation Review of IFRS 15 Revenue from Contracts with Customers* ("PIR of IFRS 15") because it qualified as an issue with low priority, has also been raised by some auditors in the context of the PIR of IFRS 15 when discussing the interaction with other IFRS Accounting Standards. In particular, it was highlighted that IFRS 9 does not seem to envisage scenarios in which the amount of a receivable may differ from the transaction price that are instead envisaged by IFRS 15 in case of variable consideration, rebate or refund (as showed in the Illustrative Example 40 accompanying IFRS 15).

20 Therefore, EFRAG agrees with the proposed amendments to paragraph 5.1.3 and Appendix A of IFRS 9 by removing the reference to 'transaction price' as defined in IFRS 15 as it would avoid confusion and improve consistency between IFRS 9 and IFRS 15 when referring to transaction price related to revenue from contracts with customers.

~~Question 4 -~~ Proposed amendments to IFRS 10 *Consolidated Financial Statements*

~~*Notes to constituents – Summary of proposals in the ED*~~

Determination of a 'de facto agent'~~*The IASB proposes to amend IFRS 10 Consolidated Financial Statements to remove from paragraph B74 an inconsistency with paragraph B73.*~~

~~*Stakeholders informed the IASB that the requirements in paragraphs B73 and B74 of IFRS 10 might, in some situations, be contradictory. Paragraph B73 refers to 'de facto agents' as parties acting on the investor's behalf and states that the determination of whether other parties are acting as de facto agents requires judgement. However, the second sentence of paragraph B74 includes more conclusive language and states that a party is a de facto agent when those that direct the activities of the investor have the ability to direct that party to act on the investor's behalf.*~~

~~*Therefore, the IASB proposes to amend paragraph B74 to use less conclusive language. In the IASB's view, the proposed amendments would remove the inconsistency with the requirement to use judgement in paragraph B73. The proposed amendments also would be consistent with the wording of the first sentence in paragraph B75, which includes a list of examples of other parties that might act as de facto agents for the investor.*~~

> ~~**Question 4**~~
>
> Do you agree with the IASB's proposals to amend the IFRS Accounting Standards~~IFRS 10~~ and accompanying guidance in the manner described in this Exposure Draft?
>
> If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

EFRAG's response

21 EFRAG welcomes the IASB intention to remove the inconsistency between the requirement to use judgement in paragraph B73 and paragraph B74 by amending paragraph B74 by using less conclusive language.

22 EFRAG acknowledges that the proposed amendments to paragraph B74 of IFRS 10 *Consolidated Financial Statements* leaves unsolved a number of issues in the assessment of de facto agent. For example, it does not explain why it would be appropriate to include consideration of shareholdings in an investee by the

controlling shareholder of an investor when assessing the investor's influence over an investee.

23 EFRAG has been informed that this is a concern that many constituents (including preparers, auditors and enforcers) share in practice. In these constituents' view, the IASB should clarify that a top-down approach should apply to assess control and consequently that it should not be possible to consider the ultimate parent of an investor as an agent for the investor.

24 However, EFRAG notes that the purpose of the proposed narrow scope amendment is not to change how the assessment of control is performed, which goes beyond the scope of *Annual Improvements* project, but to allow more flexibility in using judgement when considering the nature of a relationship with other parties.

25 With this in mind, on balance, EFRAG agrees with the proposed amendments to paragraph B74 of IFRS 10 but recommends the IASB to reconsider whether, in assessing if a party is a de facto agent of an entity, the entity needs to look upward to the powers held by its parent over that party. This would seem to depart from the well-~~ ~~established principle of considering only the powers and abilities to direct other parties held by an entity, i.e. downward look, in assessing de facto agents or, in general, control over other parties for the purposes of the entity's consolidated financial statements.

~~Question 5 -~~ Proposed amendments to IAS 7 *Statement of Cash Flows*

~~26~~

~~Notes to constituents – Summary of proposals in the ED~~

Cost method

~~The IASB proposes to amend paragraph 37 of IAS 7 to remove a reference to 'cost method' that is no longer defined in IFRS Accounting Standards.~~

~~In May 2008 the IASB amended IFRS Accounting Standards by issuing Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate, which amended IFRS 1 and IAS 27 Consolidated and Separate Financial Statements. As part of those amendments, the IASB removed the definition of 'cost method' from IFRS Accounting Standards.~~

> **~~Paragraph 37 of IAS 7 includes a reference to the term 'cost method', the retention of which was a minor oversight. Therefore, the IASB proposes to amend paragraph 37 to replace the term 'cost method' with 'at cost'.~~Question 5**
>
> Do you agree with the IASB's proposals to amend the IFRS Accounting Standards~~IAS 7~~ and accompanying guidance in the manner described in this Exposure Draft?
>
> If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

EFRAG's response

~~27~~26 EFRAG agrees with the IASB's proposal to amend paragraph 37 of IAS 7 *Statement of Cash Flows* to replace the term 'cost method' with 'at cost' as it would correct a prior minor oversight and ensure the consistent use of the terminology.