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Annual Improvements to IFRS Standards 2018-2020 Cover Note

Objective

- 1 The objective of this session is to discuss and recommend to the EFRAG Board a Draft Endorsement Advice on the Annual Improvements to IFRS Standards 2018-2020 for approval.

Background

- 2 In December 2019, the IASB discussed the comments received on the proposed amendments to the *Annual Improvements to IFRS Standards 2018-2020*. At this meeting the analysis of the staff responses to the main matters arising from the feedback were discussed.
- 3 The following table includes the proposals in the ED together with EFRAG's response and how the amendments addresses EFRAG's recommendations made in its comment letter to the IASB:

Proposals in the ED	EFRAG's response	Amendments
<p>The IASB Board proposes to require a subsidiary that elects to apply paragraph D16(a) of IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs.</p> <p>This proposed amendment would also apply to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.</p>	<p>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.</p> <p>EFRAG suggests that the IASB clarifies that the amendment to paragraph D16 does not prevent a first-time adopter from using the exemption in paragraph D13 to set the cumulative translation differences at zero at the date of transition to IFRSs.</p>	<p>The amendments permit, but not require a subsidiary applying paragraph D16(a) to use the exemption for cumulative translation differences.</p> <p>The Basis for Conclusions to the amendments acknowledges the fact that IFRS 1 already provides an exemption relating to cumulative translation differences. Therefore, EFRAG's suggestion have been considered.</p>
<p>The IASB 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.</p>	<p>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.</p> <p>EFRAG considers that a similar amendment should be made to IAS 39.</p> <p>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</p>	<p>The IASB proposed not to amend paragraph AG62 of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> for reasons provided in the Basis for Conclusions to the amendments.</p> <p>The amendments did not include any examples about fees paid or received by either the borrower or the lender on the other's behalf therefore the</p>

Annual Improvements to IFRS Standards 2018-2020

Issues Paper

Proposals in the ED	EFRAG's response	Amendments
	unclear; we recommend that an example of such fees is provided.	suggestion by EFRAG have not been considered.
The Board proposes to amend Illustrative Example 13 accompanying IFRS 16 <i>Leases</i> 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.	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.	The amendments simply dealt with the deletion of the text that created confusion and did not include any other clarifications. Therefore, EFRAG's suggestion have not been considered. However, it should be noted that EFRAG does not endorse the Illustrative Examples to IFRS Standards therefore the proposed suggestion will not have any impact on EFRAG's endorsement advice.
The Board proposes to remove the requirement in paragraph 22 of IAS 41 <i>Agriculture</i> for entities to exclude cash flows for taxation when measuring fair value applying IAS 41.	EFRAG agrees with the IASB's proposal to amend IAS 41 by excluding the reference to "taxation" from paragraph 22	EFRAG agreed with the proposed amendments therefore its recommendations were addressed.

Questions for EFRAG TEG

- 4 The EFRAG Secretariat notes that the amendment to IFRS 16 only relates to an Illustrative Example and not to the main text of the Standard. The current drafting has been prepared also including the advice on this amendment. Does EFRAG TEG consider appropriate to pursue such an approach?
- 5 Do EFRAG TEG members have comments on the DEA?
- 6 Does EFRAG TEG agree to recommend the draft endorsement advice to the EFRAG Board for approval?

Agenda Papers

- 7 In addition to this cover note, agenda paper 07-02 – Draft Endorsement Advice – has been provided for the session.