



IFRS[®]

Accounting

September 2023

Exposure Draft

IFRS[®] Accounting Standards

Annual Improvements—Volume 11

Comments to be received by 11 December 2023



International Accounting Standards Board

Exposure Draft

IFRS[®] Accounting Standards Annual Improvements Volume 11

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Introduction

Why is the IASB publishing this Exposure Draft?

IN1 The International Accounting Standards Board (IASB) has published this Exposure Draft of proposed amendments to IFRS[®] Accounting Standards (Accounting Standards) as part of its annual improvements process.

IN2 In accordance with the IASB's due process as described in the IFRS Foundation *Due Process Handbook*, proposed amendments to Accounting Standards that are sufficiently minor or narrow in scope can be packaged together and exposed in one document, even though the amendments are unrelated. Such amendments are called 'annual improvements'. Annual improvements are limited to changes that either clarify the wording in an Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements of the Accounting Standards.

How this Exposure Draft is organised

IN3 This Exposure Draft includes a section for each Accounting Standard and accompanying guidance to which amendments are proposed. Each section includes:

- (a) an explanation of the proposed amendments;
- (b) the proposed amendments; and
- (c) the basis for the IASB's conclusions in proposing the amendments.

Accounting Standards that would be affected by the proposals

IN4 The following table lists the Accounting Standards and accompanying guidance that would be affected by the proposed amendments.

Accounting Standard	Subject of proposed amendments
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Hedge accounting by a first-time adopter
IFRS 7 <i>Financial Instruments: Disclosures</i>	Gain or loss on derecognition
Guidance on implementing IFRS 7 <i>Financial Instruments: Disclosures</i>	Introduction
	Disclosure of deferred difference between fair value and transaction price
	Credit risk disclosures
IFRS 9 <i>Financial Instruments</i>	Derecognition of lease liabilities
	Transaction price
IFRS 10 <i>Consolidated Financial Statements</i>	Determination of a 'de facto agent'
IAS 7 <i>Statement of Cash Flows</i>	Cost method

Next steps

IN5 The IASB will consider the comments it receives on the proposals in this Exposure Draft and will decide whether to proceed with the proposed amendments to the Accounting Standards and accompanying guidance.

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) respond to the 'Question for respondents';
- (b) specify the 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 the IASB should consider, if applicable.

The IASB requests that comments be confined to the matters addressed in this Exposure Draft.

However, respondents need not comment on all the proposals in this Exposure Draft.

Question for respondents

Proposed amendments (please answer individually for each proposed amendment)
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.

Deadline

The IASB will consider all comments received in writing by 11 December 2023.

How to comment

Please submit your comments electronically:

Online <https://www.ifrs.org/projects/open-for-comment/>

By email commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

**Approval by the International Accounting Standards Board of
Exposure Draft *Annual Improvements to IFRS Accounting
Standards—Volume 11* published in September 2023**

The Exposure Draft *Annual Improvements to IFRS Accounting Standards—Volume 11* was approved for publication by 13 of 14 members of the International Accounting Standards Board (IASB). Mr Esterer abstained from voting in view of his recent appointment to the IASB.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Florian Esterer	
Zach Gast	
Hagit Keren	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Ann Tarca	
Robert Uhl	

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

Overview

Hedge accounting by a first-time adopter

The International Accounting Standards Board (IASB) proposes to amend paragraphs B5–B6 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to improve their consistency with the requirements in IFRS 9 *Financial Instruments* and to add cross-references to improve the accessibility and understandability of IFRS Accounting Standards.

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

Paragraph 39AJ is added. For ease of reading, this paragraph has not been underlined.

Effective date

...

39AJ *Annual Improvements to IFRS Accounting Standards – Volume 11*, issued in [Month, Year], amended paragraphs B5–B6. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be determined]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Appendix B Exception to the retrospective application of other IFRSs

Paragraphs B5–B6 are amended. New text is underlined and deleted text is struck through.

Hedge accounting

...

- B5 An entity shall not reflect in its opening IFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with IFRS 9 (for example, many hedging relationships where the hedging instrument is a stand-alone written option or a net written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk) (see paragraph 6.4.1(a) of IFRS 9). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate as a hedged item in accordance with IFRSs an individual item within that net position, or a net position if that meets the requirements in paragraph 6.6.1 of IFRS 9, provided that it does so no later than the date of transition to IFRSs.
- B6 If, before the date of transition to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the qualifying criteria ~~conditions~~ for hedge accounting in paragraph 6.4.1(b)–(c) of IFRS 9, the entity shall apply paragraphs 6.5.6 and 6.5.7 of IFRS 9 to discontinue hedge accounting. Transactions entered into before the date of transition to IFRSs shall not be retrospectively designated as hedges.

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

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

- BC1 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*.
- BC2 Both IFRS 9 and IAS 39 remain in effect for hedge accounting; which Standard is applicable depends on an entity’s accounting policy choice when it first applied IFRS 9. However, in accordance with IFRS 1, first-time adopters of IFRS Accounting Standards are required to apply IFRS 9 instead of IAS 39. Accordingly, the term ‘conditions’ in paragraph B6 of IFRS 1 is outdated for first-time adopters. The IASB therefore proposes to update this terminology in paragraph B6 of IFRS 1 to reflect the requirements in IFRS 9.
- BC3 IFRS 9, issued in July 2014, amended paragraphs B1–B6 of IFRS 1. These amendments replaced references to IAS 39 with references to IFRS 9. The amendments to paragraph B5 of IFRS 1 updated examples of hedging relationships that do not qualify for hedge accounting in accordance with IFRS 9. When the IASB issued IFRS 9, it did not intend to change the requirements in paragraph B5 or paragraph B6 of IFRS 1. Paragraph B5 remains focused on the ‘eligibility’ of a hedging relationship, and paragraph B6 on the other aspects of the qualifying criteria.
- BC4 The IASB observed that the qualifying criteria for hedge accounting in paragraph 6.4.1(a) of IFRS 9 include the requirement for a hedging relationship to consist only of eligible hedging instruments and eligible hedged items. 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) a cross-reference to paragraph 6.4.1(a) of IFRS 9 in paragraph B5 of IFRS 1; and
 - (b) a cross-reference to paragraph 6.4.1(b)–(c) of IFRS 9 in paragraph B6 of IFRS 1.
- BC5 In the IASB’s view, adding the cross-references would improve the accessibility and understandability of the requirements.

Proposed amendments to IFRS 7 *Financial Instruments: Disclosures*

and

Proposed amendments to *Guidance on implementing IFRS 7* Financial Instruments: Disclosures

Overview

Gain or loss on derecognition

The International Accounting Standards Board (IASB) proposes to amend paragraph B38 of IFRS 7 *Financial Instruments: Disclosures* to update an obsolete cross-reference.

Guidance on implementing IFRS 7

Introduction

The IASB proposes to amend paragraph IG1 of the *Guidance on implementing IFRS 7* 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.

Credit risk disclosures

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

**[Draft] Amendments to
IFRS 7 *Financial Instruments: Disclosures***

Paragraph 44KK is added. For ease of reading, this paragraph has not been underlined.

Effective date and transition

...

44KK *Annual Improvements to IFRS Accounting Standards—Volume 11*, issued in [Month, Year], amended paragraph B38. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be determined]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Appendix B Application Guidance

Paragraph B38 is amended. New text is underlined and deleted text is struck through.

Derecognition (paragraphs 42C–42H)

...

Gain or loss on derecognition (paragraph 42G(a))

B38 Paragraph 42G(a) requires an entity to disclose the gain or loss on derecognition relating to financial assets in which the entity has continuing involvement. The entity shall disclose if a gain or loss on derecognition arose because the fair values of the components of the previously recognised asset (ie the interest in the asset derecognised and the interest retained by the entity) were different from the fair value of the previously recognised asset as a whole. In that situation, the entity shall also disclose whether the fair value measurements included significant unobservable inputs ~~that were not based on observable market data~~, as described in paragraphs 72–73 of IFRS 13~~paragraph 27A~~.

[Draft] Amendments to Guidance on implementing IFRS 7 Financial Instruments: Disclosures

Paragraphs IG1, IG14 and IG20B are amended. New text is underlined and deleted text is struck through.

This guidance accompanies, but is not part of, IFRS 7.

Introduction

IG1 This guidance suggests possible ways to apply some of the disclosure requirements in IFRS 7. The guidance does not illustrate all the requirements in IFRS 7, nor does it create additional requirements.

...

Significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)¹ [*footnote omitted*]

...

Fair value (paragraph 28)

IG14 ~~At initial recognition an entity measures the fair value of financial instruments that are not traded in active markets. However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique. In some cases, the transaction price of a financial instrument differs from its fair value at initial recognition, and that fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets. In these circumstances, the difference will be recognised in profit or loss in subsequent periods in accordance with IFRS 9 *Financial Instruments* and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with some of the requirements in paragraph 28:~~

Background

On 1 January 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price is ~~of~~ CU15 million ~~is the fair value at initial recognition~~.

~~The entity determines that the transaction price differs from the fair value of the financial assets at~~ After initial recognition, ~~The~~ the entity applies ~~will apply~~ a valuation technique to measure the financial assets' fair value. This valuation technique uses inputs other than data from observable markets.

At initial recognition, the ~~fair value of the financial assets measured using that same~~ valuation technique ~~is~~ would have resulted in an amount of CU14 million, which differs from ~~the transaction price fair value~~ by CU1 million.

At 1 January 20X1, prior to this transaction, the ~~The~~ entity has a balance of existing differences of CU5 million ~~yet to be recognised in profit or loss at 1 January 20X1~~.

Application of requirements

The entity's 20X2 disclosure would include the following:

Accounting policies

The entity uses the following valuation technique to measure the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the ~~fair value at initial recognition (which, in accordance with IFRS 13 and IFRS 9, is generally the transaction price)~~ and the ~~fair value measured amount determined~~ at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

In the notes to the financial statements

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IFRS 13 and IFRS 9, the fair value of an instrument at ~~initial recognition inception~~ is normally the transaction price. If the transaction price differs from the ~~fair value measured amount determined at initial recognition inception~~ using the valuation technique, that difference is [description of the entity's accounting policy].

continued...

...continued

The differences yet to be recognised in profit or loss are as follows:		
	31 Dec X2	31 Dec X1
	CU million	CU million
Balance at beginning of year	5.3	5.0
New transactions	–	1.0
Amounts recognised in profit or loss during the year	(0.7)	(0.8)
Other increases	–	0.2
Other decreases	(0.1)	(0.1)
Balance at end of year	<u>4.5</u>	<u>5.3</u>

Nature and extent of risks arising from financial instruments (paragraphs 31–42 and B6–B28)

...

Credit risk (paragraphs 35A–36, B8A–B10)

...

Illustrating the application of paragraphs 35H and 35I

IG20B The following example illustrates one way of providing information about the changes in the loss allowance and the significant changes in the gross carrying amount of financial assets, other than financial assets that are purchased or originated credit-impaired, during the period that contributed to changes in the loss allowance as required by paragraphs 35H–35I. ~~This example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired.~~

Basis for Conclusions on the proposed amendments to IFRS 7 *Financial Instruments: Disclosures* and on the proposed amendments to *Guidance on implementing IFRS 7 Financial Instruments: Disclosures*

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

Disclosures relating to transfers of financial assets—gain or loss on derecognition

- BC1 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 *Financial Instruments: Disclosures*. However, the IASB omitted to delete from paragraph B38 of IFRS 7 what would become, after IFRS 13 was issued, an obsolete reference to paragraph 27A of IFRS 7.
- BC2 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.
- BC3 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:
- (a) the reference to paragraph 27A of IFRS 7 with a reference to paragraphs 72–73 of IFRS 13; and
 - (b) 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

Other disclosures—fair value

- BC4 Paragraph B5.1.2A(b) of IFRS 9 *Financial Instruments* 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.

- BC5 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 of the *Guidance on implementing IFRS 7*, 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.
- BC6 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.

Introduction and credit risk

- BC7 Stakeholders informed the IASB about a potential lack of clarity in paragraph IG20C of the *Guidance on implementing IFRS 7* because that paragraph fails to state that the example does not illustrate all the requirements in paragraph 35M of IFRS 7.
- BC8 Paragraph IG20B of the *Guidance on implementing IFRS 7*—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.
- BC9 The IASB proposes to resolve the lack of clarity in paragraph IG20C and the inconsistency between it and paragraph IG20B by amending:
- (a) paragraph IG1 of the *Guidance on implementing IFRS 7* to state that the implementation guidance accompanying IFRS 7 does not illustrate all the requirements in IFRS 7; and
 - (b) paragraph IG20B to simplify the explanation of the aspects of the requirements that are not illustrated.
- BC10 Because the *Guidance on implementing IFRS 7* does not provide mandatory requirements, the requirements in IFRS 7 would prevail in case of any confusion or apparent conflict. Nonetheless, the IASB proposes to amend paragraphs IG1, IG14 and IG20B to remove the potential for confusion.

Proposed amendments to IFRS 9 *Financial Instruments*

Overview

Derecognition of lease liabilities

The International Accounting Standards Board (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.

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.

[Draft] Amendments to IFRS 9 *Financial Instruments*

Chapter 2 Scope

Paragraph 2.1(b)(ii) is amended. Paragraph 2.1(b)(i) is not amended but is included for ease of reference. New text is underlined and deleted text is struck through.

2.1 This Standard shall be applied by all entities to all types of financial instruments except:

...

(b) rights and obligations under leases to which IFRS 16 *Leases* applies. However:

(i) finance lease receivables (ie net investments in finance leases) and operating lease receivables recognised by a lessor are subject to the derecognition and impairment requirements of this Standard;

(ii) lease liabilities recognised by a lessee are subject to the derecognition requirements in paragraphs 3.3.1 and 3.3.3 of this Standard; and

...

Chapter 5 Measurement

Paragraph 5.1.3 is amended. Paragraphs 5.1.1–5.1.2 are not amended but are included for ease of reference. New text is underlined and deleted text is struck through.

5.1 Initial measurement

- 5.1.1 Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, *transaction costs* that are directly attributable to the acquisition or issue of the financial asset or financial liability.
- 5.1.1A However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph B5.1.2A.
- 5.1.2 When an entity uses settlement date accounting for an asset that is subsequently measured at amortised cost, the asset is recognised initially at its fair value on the trade date (see paragraphs B3.1.3–B3.1.6).
- 5.1.3 Despite the requirement in paragraph 5.1.1, at initial recognition, an entity shall measure trade receivables at the amount determined by applying their transaction price (as defined in IFRS 15) if the trade receivables do not contain a significant financing component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15).

Chapter 7 Effective date and transition

Paragraphs 7.1.12 and 7.2.50 and the heading before paragraph 7.2.50 are added. For ease of reading these paragraphs have not been underlined.

7.1 Effective date

...

- 7.1.12 *Annual Improvements to IFRS Accounting Standards—Volume 11*, issued in [Month, Year], amended paragraphs 2.1(b)(ii) and 5.1.3 and Appendix A. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be determined]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

...

7.2 Transition

...

Transition for *Annual Improvements to IFRS Accounting Standards—Volume 11*

- 7.2.50 An entity shall apply the amendment to paragraph 2.1(b)(ii) made by *Annual Improvements to IFRS Accounting Standards—Volume 11* to lease liabilities that are extinguished on or after the beginning of the annual reporting period in which the entity first applies that amendment.

Appendix A Defined terms

The last paragraph of Appendix A is amended. New text is underlined and deleted text is struck through.

...

The following terms are defined in paragraph 11 of IAS 32, Appendix A of IFRS 7, or Appendix A of IFRS 13 ~~or Appendix A of IFRS 15~~ and are used in this Standard with the meanings specified in IAS 32, IFRS 7, or IFRS 13 ~~or IFRS 15~~:

- (a) credit risk;³ *[footnote omitted]*
- (b) equity instrument;
- (c) fair value;
- (d) financial asset;
- (e) financial instrument;
- (f) financial liability;
- (g) ~~transaction price.~~

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

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

Scope—derecognition of lease liabilities

- BC1 Stakeholders informed the IASB about a lack of clarity around a lessee's accounting for a derecognition of a lease liability. In IFRS 9 *Financial Instruments*, 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*.
- BC2 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.
- BC3 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.

Measurement—transaction price

- BC4 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.
- BC5 The IASB observed two ways in which IFRS 9 uses the term 'transaction price':
- (a) as defined in IFRS 15—in paragraph 5.1.3 in the context of trade receivables; and
 - (b) 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.

- BC6 The two uses of ‘transaction price’ in IFRS 9 are not the same because:
- (a) 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.
 - (b) 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.
- BC7 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.
- BC8 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’.

Proposed amendments to IFRS 10 *Consolidated Financial Statements*

Overview

Determination of a ‘de facto agent’

The International Accounting Standards Board (IASB) proposes to amend IFRS 10 *Consolidated Financial Statements* to remove from paragraph B74 an inconsistency with paragraph B73.

[Draft] Amendments to IFRS 10 *Consolidated Financial Statements*

Paragraph B74 is amended. Paragraph B73 is not amended but is included for ease of reference. New text is underlined and deleted text is struck through.

Relationship with other parties

- B73 When assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf (ie they are 'de facto agents'). The determination of whether other parties are acting as de facto agents requires judgement, considering not only the nature of the relationship but also how those parties interact with each other and the investor.
- B74 Such a relationship need not involve a contractual arrangement. A party is a de facto agent when the investor has, ~~or those that direct the activities of the investor have,~~ the ability to direct that party to act on the investor's behalf. A party might be 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. ~~The~~ In these circumstances, the investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee.

Appendix C Effective date and transition

Paragraph C1E is added. For ease of reading, this paragraph has not been underlined.

Effective date

...

C1E *Annual Improvements to IFRS Accounting Standards—Volume 11*, issued in [Month, Year], amended paragraph B74. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be determined]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Basis for Conclusions on the proposed amendments to IFRS 10 *Consolidated Financial Statements*

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

- BC1 Stakeholders informed the IASB that the requirements in paragraphs B73 and B74 of IFRS 10 *Consolidated Financial Statements* 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.
- BC2 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.

Proposed amendments to IAS 7 *Statement of Cash Flows*

Overview

Cost method

The International Accounting Standards Board (IASB) proposes to amend paragraph 37 of IAS 7 *Statement of Cash Flows* to remove a reference to ‘cost method’ that is no longer defined in IFRS Accounting Standards.

[Draft] Amendments to IAS 7 *Statement of Cash Flows*

Paragraph 37 is amended. New text is underlined and deleted text is struck through.

Investments in subsidiaries, associates and joint ventures

37 When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity method or ~~at cost-method~~, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

...

Paragraph 64 is added. For ease of reading, this paragraph has not been underlined.

Effective date

...

64 *Annual Improvements to IFRS Accounting Standards—Volume 11*, issued in [Month, Year], amended paragraph 37. An entity shall apply that amendment for annual reporting periods beginning on or after [date to be determined]. Earlier application is permitted. If an entity applies that amendment for an earlier period, it shall disclose that fact.

Basis for Conclusions on the proposed amendments to IAS 7 *Statement of Cash Flows*

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

- BC1 In May 2008 the IASB amended IFRS Accounting Standards by issuing *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. As part of those amendments, the IASB removed the definition of ‘cost method’ from IFRS Accounting Standards.
- BC2 Paragraph 37 of IAS 7 *Statement of Cash Flows* 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’.



IFRS[®]

Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**

Email **customerservices@ifrs.org**

ifrs.org