

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Annual Improvements to IFRS Accounting Standards—Volume 11

Cover Note

Objective

- 1 The objectives of this session are to:
 - (a) provide a summary of the feedback received by constituents related to EFRAG’s DCL; and
 - (b) to discuss and approve the EFRAG Secretariat’s recommendations on a proposed final comment letter.

Background information

- 2 In September 2023 the IASB has published the Exposure Draft IASB/AI/ED/2023/1 Annual Improvements—Volume 11 ('the [ED](#)') with a deadline for comments of 11 December 2023.
- 3 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.
- 4 The following IFRS Accounting Standards and accompanying guidance would be affected by the proposed amendments (“AI”):
 - (a) IFRS 1 *First-time Adoption of International Financial Reporting Standards* - Hedge accounting by a first-time adopter;
 - (b) IFRS 7 *Financial Instruments: Disclosures* - Gain or loss on derecognition
 - (c) *Guidance on implementing IFRS 7 Financial Instruments: Disclosures*
 - (i) Introduction;
 - (ii) Disclosure of deferred difference between fair value and transaction price;
 - (iii) Credit risk disclosures
 - (d) IFRS 9 *Financial Instruments*

- (i) Derecognition of lease liabilities;
 - (ii) Transaction price
- (e) IFRS 10 *Consolidated Financial Statements* - Determination of a 'de facto agent'
- (f) IAS 7 *Statement of Cash Flows* - Cost method.
- 5 The IASB proposes to apply the amendments retrospectively with an earlier application permitted.
- 6 On 2 November 2023 EFRAG FR TEG discussed and approved the Draft Comment Letter ("[DCL](#)"), which has been published on 3 November 2023 with a comment period ended on 28 November 2023.
- 7 In its DCL:
- (a) EFRAG welcomed the package of the annual improvements included in the ED (the "Proposed AI(s)") and agreed with the majority of the them. In EFRAG's view, they would improve consistent application and understandability of the IFRS Accounting Standards.
 - (b) However, EFRAG disagreed with the IASB's proposed amendment to IFRS 9 on derecognition of lease liabilities and recommended the IASB to clarify the interaction between IFRS 9 and IFRS 16 as part of a narrow-scope standard-setting project.
 - (c) Regarding the proposed amendment to IFRS 10 on de facto agents, EFRAG recommended the IASB 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.

Summary of respondents

- 8 At the time of writing, 3 comment letters have been received from national standard setters.
- 9 All final letters received have been uploaded to EFRAG's Website ([here](#)).
- 10 Appendix 1 provides a list of all respondents who submitted final comment letters.
- 11 The EFRAG Secretariat will provide a verbal presentation on any additional final comment letter that would be received by the time the EFRAG FR TEG meeting is held.

Summary of feedback from constituents to the ED and EFRAG DCL

- 12 All respondents agreed with the DCL on the feedback on the Proposed AIs on the sections listed below as they would help to improve the consistent application of IFRS Accounting Standards:
- (a) Amendments to IFRS 1;
 - (b) Amendments to IFRS 7;
 - (c) Amendments to Guidance on implementation IFRS 7
 - (d) Amendments to IFRS 9 – Transaction price; and
 - (e) Amendments to IAS 7.

- 13 Respondents provided diverging feedback on the DCL on the following sections: Amendments to IFRS 9 – Derecognition of lease liabilities and Amendments to IFRS 10 – Determination of a ‘de facto agent’.

Proposed amendments to IFRS 9 – Derecognition of lease liabilities

- 14 Two out of three respondents agreed with the position in the DCL that the proposed amendments to IFRS 9 on the derecognition of lease liabilities would not clarify the interaction between IFRS 9 and IFRS 16 on the derecognition of lease liabilities when the extinguishment of a lease liability also meets the definition of lease modification in accordance with IFRS 16. These respondents agreed that the IASB should address the aforementioned issue relating the interaction between IFRS 9 and IFRS 16 as part of a narrow-scope standard-setting project. However, specifically regarding the proposed amendments to IFRS 9, they provided the following comments:
- (a) One respondent disagreed with the proposed amendments to IFRS 9 because, in its view, it did not just intend to address an oversight but the accounting treatment for this matter is unclear as indicated by the *Amendment to IFRS 16 - Covid-19-Related Rent Concessions* issued by the IASB in May 2020.
 - (b) One respondent considered the proposed amendments to IFRS 9 acceptable but only if provided in conjunction with a clarification in the Basis for Conclusion of IFRS 9 that it does not presume the conclusion on the analysis to be carried out on the nature of the rent forgiveness (i.e., extinguishment of a financial liability within the scope of IFRS 9 versus a lease modification to be accounted for in accordance with IFRS 16).
- 15 Conversely, one respondent disagreed with the position in the DCL. In this respondent’s view, the additional reference to paragraph IFRS 9.3.3.3 would be appropriate and applicable to all circumstances which leads to a partial or full derecognition of a lease liability not in scope of IFRS 16.46(b). Indeed, in this last circumstance, requirements in IFRS 9.3.3.3 would be redundant.

Proposed amendments to IFRS 10 – Determination of a ‘de facto agent’

- 16 Both respondents providing feedback on this issue agreed with the position in the DCL agreeing with the proposed amendments to IFRS 10.
- 17 One respondent agreed with the EFRAG suggestion to recommend 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.
- 18 The other respondent did refrain from recommending further reconsideration in the context of this annual improvement because all challenges mentioned in EFRAG’s DCL would exist even without the proposed amendments to IFRS 10.

EFRAG Secretariat’s recommendations on the proposed final comment letter

- 19 Base on the above, the EFRAG Secretariat does not suggest any change to the DCL for topics described in paragraph 12.
- 20 On amendments to IFRS 9 – Derecognition of lease liabilities, the EFRAG Secretariat counts that two out of three respondents do not disagree with the proposed amendments while, at the same time, two out of three respondents recommend this amendment to be carried

out as a separate amendment following the Post-implementation Review of IFRS 16 rather than as a part of Proposed AI.

- 21 The EFRAG Secretariat has not identified an urgency in the amendment of paragraph 2.1(b)(ii) of IFRS 9 and recommends to change the concluding paragraph on the amendment of IFRS 9 – Derecognition of lease liabilities from “Therefore, EFRAG disagrees with the proposed amendments and recommends the IASB to clarify the interaction between IFRS 9 and IFRS 16 as part of a narrow-scope standard-setting project” to “Therefore, EFRAG 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”.
- 22 On amendments to IFRS 10 – Determination of a ‘de facto agent’, there is a one-one tie on whether the comment letter is or is not to include a recommendation for 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. The EFRAG Secretariat agrees with the position in its DCL and does not recommend any change.

Questions for EFRAG FR TEG members

- 23 Do EFRAG FR TEG members agree with EFRAG Secretariat’s recommendations from paragraphs 19 to 22?
- 24 Do EFRAG FR TEG members have any other comments or recommendations?
- 25 Do EFRAG FR TEG members agree to recommend the Final Comment Letter contained in agenda paper 02-02 to the EFRAG FRB?

Next steps

- 26 The EFRAG Secretariat will discuss the Final Comment Letter with EFRAG FRB at the meeting on 7 December and will ask for its approval before sending it to the IASB.

Agenda Papers

- 27 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 02-02 – Proposed Final comment letter
 - (b) Agenda paper 02-03 – Proposed Final Comment Letter compared with EFRAG Draft Comment Letter

Appendix 1 – List of respondents

No	Respondent	Country	Type of respondent
CL001	OIC	Italy	Standard Setter
CL002	ANC	France	Standard Setter
CL003	ASCG	Germany	Standard Setter