



iGAAP in Focus

Financial reporting

IASB proposes amendments to IFRS Accounting Standards as part of its annual improvements process

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This *iGAAP in Focus* outlines Exposure Draft (ED) *Annual Improvements to IFRS Accounting Standards—Volume 11*, published by the International Accounting Standards Board (IASB) in September 2023.

- The IASB published an ED of proposed amendments to IFRS Accounting Standards as part of its annual improvements process
- The following amendments are proposed:
 - IFRS 1 *First-time Adoption of International Financial Reporting Standards*
 - » Hedge accounting by a first-time adopter
 - IFRS 7 *Financial Instruments: Disclosures*
 - » Gain or loss on derecognition
 - » Disclosure of deferred difference between fair value and transaction price
 - » Credit risk disclosures
 - IFRS 9 *Financial Instruments*
 - » Derecognition of lease liabilities
 - » Transaction price
 - IFRS 10 *Consolidated Financial Statements*
 - » Determination of a 'de facto agent'
 - IAS 7 *Statement of Cash Flows*
 - » Cost method
- The ED does not include an effective date. Early application of the amendments is proposed to be permitted. If an entity applies the amendments early, it would have to disclose that fact
- The comment period for the ED ends on 11 December 2023

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Background

The IASB published an ED that proposes amendments to IFRS Accounting Standards as part of its annual improvements process. These proposed annual improvements are sufficiently minor or narrow in scope that they were packaged together and exposed in one document, even though the amendments are unrelated. Annual improvements are limited to 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 Standards.

The proposed amendments

Hedge accounting by a first-time adopter (proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*)

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

To address this issue, the IASB proposes to amend IFRS 1:B5-B6 to improve their consistency with the requirements in IFRS 9 and to add cross-references to IFRS 9:6.4.1 to improve the accessibility and understandability of IFRS 1.

Gain or loss on derecognition (proposed amendments to IFRS 7 *Financial Instruments: Disclosures*)

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 IFRS 7:27-27B. However, in IFRS 7:B38, the IASB omitted to delete what would become, after IFRS 13 was issued, an obsolete reference to IFRS 7:27A.

The IASB therefore proposes to update the obsolete cross-reference in IFRS 7:B38.

Disclosure of deferred difference between fair value and transaction price (proposed amendments to the Guidance on implementing IFRS 7)

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

To address this issue, the IASB proposes to amend IFRS 7:IG14 to improve its consistency with IFRS 7:28.

Introduction and credit risk disclosures (proposed amendments to the Guidance on implementing IFRS 7)

Stakeholders informed the IASB about a potential lack of clarity in IFRS 7:IG20C because that paragraph fails to state that the example does not illustrate all the requirements in IFRS 7:35M. In addition, IFRS 7:IG20B—which illustrates the application of the requirements in IFRS 7:35H-35I—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 IFRS 7:IG20C would also state that it does not illustrate particular requirements in IFRS 7:35M.

To address these issues, the IASB proposes to amend IFRS 7:IG1 to add a statement clarifying that the guidance does not illustrate all the requirements in IFRS 7. The IASB also proposes to amend IFRS 7:IG20B to simplify its wording.

Derecognition of lease liabilities (proposed amendments to IFRS 9)

Stakeholders informed the IASB about a lack of clarity around a lessee's accounting for the derecognition of a lease liability. IFRS 9:2.1(b)(ii) includes a cross-reference to IFRS 9:3.3.1, but not to IFRS 9:3.3.3. The lack of a cross-reference to IFRS 9:3.3.3 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 IFRS 9:3.3.3 or in another manner—such as by making a corresponding adjustment to the right-of-use asset recognised in accordance with IFRS 16 *Leases*.

To address this issue, the IASB proposes to amend IFRS 9:2.1(b)(ii) to add a cross-reference to IFRS 9:3.3.3.

Transaction price (proposed amendments to IFRS 9)

Stakeholders informed the IASB about potential confusion arising from a reference in IFRS 9:Appendix A 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 therefore proposes to amend IFRS 9:5.1.3 and IFRS 9:Appendix A to clarify the use of the term 'transaction price' in the Standard.

Determination of a 'de facto agent' (proposed amendments to IFRS 10 Consolidated Financial Statements)

Stakeholders informed the IASB that the requirements in IFRS 10:B73-B74 might, in some situations, be contradictory. IFRS 10: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 IFRS 10: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.

To address this issue, the IASB proposes to amend IFRS 10:B74 to use less conclusive language and thus make that paragraph consistent with IFRS 10:B73.

Cost method (proposed amendments to IAS 7 Statement of Cash Flows)

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. However, the IASB did not remove a reference to the term 'cost method' from IAS 7:37, which was an oversight.

Therefore, the IASB proposes to amend IAS 7:37 to replace the term 'cost method' with 'at cost'.

Effective date and comment period

The ED does not include an effective date. Early application of the amendments is proposed to be permitted. If an entity applies the amendments early, it would have to disclose that fact.

The comment period for the ED ends on 11 December 2023.

Further information

If you have any questions about the proposed amendments, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature.

iGAAP on DART allows access to the full IFRS Standards, linking to and from:

- Deloitte's authoritative up-to-date iGAAP manual which provides guidance for reporting under IFRS Standards
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