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Approval by the Board of *Annual Improvements to IFRS Standards 2018–2020* issued in May 2020

Annual Improvements to IFRS Standards 2018–2020 was approved for issue by all 14 members of the International Accounting Standards Board.

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Amendment to Basis for Conclusion on IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph BC30(d) is amended. New text in this paragraph is underlined.

After paragraph BC55, a new heading and paragraphs BC55A–BC55C are added. These paragraphs and their related heading have not been underlined for ease of reading.

BC30 An entity may elect to use one or more of the following exemptions:

...

(d) cumulative translation differences (paragraphs BC53–<u>BC55C</u>~~BC55~~);

...

Subsidiary as a First-time Adopter (Annual Improvements to IFRS Standards 2018–2020)

BC55A Paragraph D16(a) provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. Paragraphs BC59–BC60 explain that the Board provided this exemption so that a subsidiary would not have to keep two parallel sets of accounting records based on different dates of transition to IFRSs.

BC55B The exemption in paragraph D16(a) does not apply to components of equity. Accordingly, before the amendment that added paragraph D13A, a subsidiary that became a first-time adopter later than its parent might have been required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs. Following the rationale in paragraphs BC59–BC60, the Board decided to extend the exemption in paragraph D16(a) to cumulative translation differences to reduce costs for first-time adopters. The Board noted that IFRS 1 already provides an exemption relating to cumulative translation differences. Extending the exemption in paragraph D16(a) would therefore not diminish the relevance of information reported by a subsidiary that becomes a first-time adopter later than its parent.

BC55C Entities that apply paragraph D16(a) could in some situations find it burdensome to measure cumulative translation differences using the amount reported by the parent. The Board therefore decided to permit, but not require, a subsidiary applying paragraph D16(a) to use that exemption for cumulative translation differences. The amendment also applies to an associate or joint venture that uses the exemption in paragraph D16(a).

Amendment to Basis for Conclusions on IFRS 9 *Financial Instruments*

After paragraph BC3.32, a new heading and paragraphs BC3.33–BC3.36 are added. These paragraphs and their related heading have not been underlined for ease of reading.

Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (*Annual Improvements to IFRS Standards 2018–2020*)

BC3.33 Paragraph 3.3.2 requires an entity to derecognise the original financial liability and recognise a new financial liability when there is:

(a) an exchange between an existing borrower and lender of debt instruments with substantially different terms; or

(b) a substantial modification of the terms of an existing financial liability or a part of it.

Paragraph B3.3.6 specifies that the terms are substantially different if the discounted present value of the cash flows under the new terms using the original effective interest rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability (10 per cent test). Paragraph B3.3.6 requires an entity to include 'any fees paid net of any fees received' in the 10 per cent test.

BC3.34 The Board decided to amend paragraph B3.3.6 in response to a request to clarify which fees an entity includes in the 10 per cent test. The clarification aligns with the objective of the test, which is to quantitatively assess the significance of any difference between the old and new contractual terms on the basis of the changes in the contractual cash flows between the borrower and lender.

BC3.35 The transition requirements in paragraph 7.2.35 reflect the Board's view that the expected benefit from retrospective application of the amendment would not outweigh the cost of requiring entities to reassess all previous modifications and exchanges. In particular, retrospective application would be unlikely to provide users of financial statements with trend information because financial liabilities are generally modified or exchanged on an ad hoc basis.

BC3.36 Paragraph AG62 of IAS 39 includes the same requirements as those in paragraph B3.3.6 of IFRS 9. An entity that has not previously applied any version of IFRS 9 and whose activities are predominantly connected with insurance is permitted to apply IAS 39 for a limited period of time. In providing the temporary exemption from applying IFRS 9, the Board had not contemplated maintaining IAS 39 (other than for hedge accounting) given the temporary and limited nature of the exemption. Therefore, the Board did not amend paragraph AG62 of IAS 39.

Amendment to Illustrative Examples accompanying IFRS 16 *Leases*

Part 1 of Illustrative Example 13 in paragraph IE5 is amended. New text is underlined and deleted text is struck through.

Lessee measurement (paragraphs 18–41 and B34–B41)

IE5 ...

Example 13—Measurement by a lessee and accounting for a change in the lease term

Part 1—Initial measurement of the right-of-use asset and the lease liability

Lessee enters into a 10-year lease of a floor of a building, with an option to extend for five years. Lease payments are CU50,000 per year during the initial term and CU55,000 per year during the optional period, all payable at the beginning of each year. To obtain the lease, Lessee incurs initial direct costs of CU20,000, of which CU15,000 relates to a payment to a former tenant occupying that floor of the building and CU5,000 relates to a commission paid to the real estate agent that arranged the lease. As an incentive to Lessee for entering into the lease, Lessor agrees to reimburse to Lessee the real estate commission of CU5,000 ~~and Lessee's leasehold improvements of CU7,000~~.

At the commencement date, Lessee concludes that it is not reasonably certain to exercise the option to extend the lease and, therefore, determines that the lease term is 10 years.

The interest rate implicit in the lease is not readily determinable. Lessee's incremental borrowing rate is 5 per cent per annum, which reflects the fixed rate at which Lessee could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a 10-year term, and with similar collateral.

At the commencement date, Lessee makes the lease payment for the first year, incurs initial direct costs, receives <u>the</u> lease <u>incentive</u> ~~incentives~~ from Lessor and measures the lease liability at the present value of the remaining nine payments of CU50,000, discounted at the interest rate of 5 per cent per annum, which is CU355,391.

Lessee initially recognises assets and liabilities in relation to the lease as follows.

Right-of-use asset	CU405,391	
Lease liability		CU355,391
Cash (lease payment for the first year)		CU50,000
Right-of-use asset	CU20,000	
Cash (initial direct costs)		CU20,000
Cash (lease incentive)	CU5,000	
Right-of-use asset		CU5,000

~~Lessee accounts for the reimbursement of leasehold improvements from Lessor applying other relevant Standards and not as a lease incentive applying IFRS 16. This is because costs incurred on leasehold improvements by Lessee are not included within the cost of the right-of-use asset.~~

...

Amendment to the Basis for Conclusions on IFRS 16 *Leases*

After paragraph BC173, a new heading and paragraphs BC173A–BC173B are added. These paragraphs and their related heading have not been underlined for ease of reading.

Lease Incentives (Annual Improvements to IFRS Standards 2018–2020)

BC173A The Board was informed about the potential for confusion in applying IFRS 16 because of the way Illustrative Example 13 accompanying IFRS 16 had illustrated the requirements for lease incentives. Before the amendment, Illustrative Example 13 had included as part of the fact pattern a reimbursement relating to leasehold improvements; the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16.

BC173B The Board decided to remove the potential for confusion by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements. The Board concluded that little would be lost by deleting it.

Amendment to the Basis for Conclusions on IAS 41 *Agriculture*

Paragraph BC1 and the headings above paragraph BC5 and BC8 are amended. New text in this paragraph and in these headings is underlined and deleted text is struck through.

After paragraph BC10, a new heading and paragraphs BC11–BC12 are added. These paragraphs and their related heading have not been underlined for ease of reading.

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on amending IAS 41 *Agriculture*, including by issuing ~~*Improvements to IFRSs* in May 2008 and by~~ *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41)[1] in June 2014 ...

...

Recognition and measurement ~~– 2008 amendments~~

Discount rate (paragraph 20) – 2008 amendments

...

Additional biological transformation (paragraph 21) – 2008 amendments

...

Taxation in Fair Value Measurements – 2020 amendment

BC11 The 2008 amendments removed the requirement for entities to use a pre-tax discount rate to discount cash flows when measuring fair value (see paragraphs BC5–BC7). At that time the Board did not amend paragraph 22 of IAS 41 to delete the reference to cash flows for taxation. Consequently, before *Annual Improvements to IFRS Standards 2018–2020*, IAS 41 had required an entity to use pre-tax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows.

BC12 In 2020, the Board amended paragraph 22 to remove the requirement to exclude cash flows for taxation when measuring fair value because:

(a) doing so aligns the requirements in IAS 41 on fair value measurement with those in IFRS 13 *Fair Value Measurement*. When measuring fair value, IFRS 13 neither prescribes the use of a single present value technique nor limits the use of present value techniques to only those discussed in that Standard. However, when using a present value technique, paragraph B14 of IFRS 13 requires assumptions about cash flows and discount rates to be internally consistent. Depending on the particular facts and circumstances, an entity applying a present value technique might measure fair value by discounting after-tax cash flows using an after-tax discount rate or pre-tax cash flows at a rate consistent with those cash flows.

(b) it would appear the Board's intention in amending IAS 41 in 2008 was to permit entities to include tax cash flows in measuring fair value (see paragraph BC6). Removing 'taxation' from paragraph 22 is consistent with that intent.