Think Ahead ACCA

# IASB/AI/ED/2023/1 IFRS Accounting Standards Annual Improvements Volume 11

Exposure Draft issued by the IASB in September 2023

Comments from ACCA
27 November 2023

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Further information about ACCA's comments on the matters can be requested from:

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# GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's exposure draft (ED) for the *IFRS Accounting Standards Annual Improvements Volume 11*.

This was done with the assistance of ACCA's Global Forum for Corporate Reporting.

We support most of the proposals that align the wording, clarify phrases, and correct minor conflicts in an Accounting Standard. The proposed amendments improve the understandability of the affected requirements and improve the consistency among Accounting Standards.

However, we have reservations about the effectiveness of the proposed amendment to paragraph IG20B of the *Guidance on implementing IFRS 7* in resolving the issue of an example not illustrating all requirements of a Standard. See our detailed response in page 4.

Our detailed responses to each proposed amendment are set out below.

# RESPONSES TO SPECIFIC QUESTIONS RAISED

**Question**

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.

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

**ACCA response**

We support the proposal to add a cross-reference to:
- paragraph 6.4.1(a) of IFRS 9 in paragraph B5 of IFRS 1, and
- paragraph 6.4.1(b)–(c) of IFRS 9 in paragraph B6 of IFRS 1.

We believe adding these cross-references would improve the understandability of the requirements in paragraphs B5 and B6 of IFRS 1, as the IASB had noted in paragraph BC5 of the ED.

**Proposed amendments to IFRS 7 *Financial Instruments: Disclosures* – Gain or loss on derecognition**

**ACCA response**

We support the proposal to amend paragraph B38 of IFRS 7 by replacing the reference to an obsolete paragraph 27A of IFRS 7 with a reference to paragraphs 72 – 73 of IFRS 13. We also support using the phrase 'unobservable inputs' to align with the wording in paragraph 72 of IFRS 13.

**Proposed amendments to *Guidance on implementing IFRS 7* (the Guidance)**

a) Introduction
b) Disclosure of deferred difference between fair value and transaction price
c) Credit risk disclosures

**ACCA response**

**a) Introduction**

The proposed amendment further clarifies the preceding sentence in paragraph IG1 which states, *"This guidance suggests possible ways to apply <u>some of the disclosure requirements in IFRS 7</u>".*

While adding *"The guidance <u>does not illustrate all the requirements in IFRS 7</u>, […]"* to paragraph IG1 of the Guidance may seem unnecessary, we note the IASB's rationale in paragraphs BC7 – BC9 of the ED and therefore support the proposed amendment.

**b) Disclosure of deferred difference between fair value and transaction price**

We support the proposed amendments to paragraph IG14 of the Guidance that align the wording in that paragraph with paragraph 28 of IFRS 7, and thereby improve the consistency between the two paragraphs. The proposed amendments also improve the understandability of paragraph IG14.

**c) Credit risk disclosures**

The proposed amendment does not change the fact that the example in paragraph IG20B does not illustrate the requirements for financial assets that are purchased or originated credit-impaired. The understandability of paragraph IG20B of the Guidance would likely be unchanged, too.

While we note the connection between the proposed amendments for paragraphs IG1 and IG20B of the Guidance, the overarching proposed statement in paragraph IG1 may not address the concerns of stakeholders who informed the IASB that the last sentence in paragraph IG20B *"might lead readers to expect that paragraph IG20C would also state that it does not illustrate particular requirements in paragraph 35M of IFRS 7"* (as per paragraph BC8 of the ED).

Therefore, we suggest the IASB consider stating clearly the particular requirement(s) in the Standard that the implementation guidance or example is illustrating, instead of refencing a paragraph in the Standard that contains several requirements.

**Proposed amendments to IFRS 9 *Financial Instruments***

a) Derecognition of lease liabilities
b) Transaction price

**ACCA response**

**a) Derecognition of lease liabilities**

We support the proposal to amend paragraph 2.1(b)(ii) of IFRS 9 to include a cross-reference to paragraph 3.3.3 of IFRS 9. We believe the amendment will clarify how a lessee recognises the gain or loss from extinguishing a lease liability.

We also support the proposed paragraph 7.2.50 to apply this amendment prospectively, i.e. to lease liabilities that are extinguished on or after the beginning of the annual reporting period in which the entity first applies that amendment. We concur with the IASB's view in paragraph BC3 of the ED that the expected benefits of a lessee applying the proposed amendment retrospectively would not outweigh the potential costs.

**b) Transaction price**

We support the proposed amendment to 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'.

We note the term ‘transaction price’ as used in some paragraphs in IFRS 9 carries a meaning that is from the definition of that term in IFRS 15. For example, when used in paragraphs B5.1.1 and B5.1.2A of IFRS 9.

We therefore support the proposal to delete the reference to ‘transaction price’ (as defined in IFRS 15) in Appendix A of IFRS 9. We concur with the IASB’s view in paragraph BC7 of the ED that retaining this reference is unnecessary and potentially confusing.

**Proposed amendments to IFRS 10 *Consolidated Financial Statements***

**ACCA response**

We note the proposed amendment to use less conclusive language in paragraph B74 of IFRS 10 to be consistent with the requirement in paragraph B73 to apply judgement when determining whether other parties are acting as de facto agents.

We suggest the IASB consider applying this reasoning consistently in determining whether ‘a party *might be* a de facto agent’ when either 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.

As determining whether a party *might be* a de facto agent requires the application of judgement that affects the investor’s decision to consolidate an investee as subsidiary, we suggest applying the proposed amendment prospectively to assessment of whether a party is a de facto agent that occurs on or after the beginning of the annual reporting period in which the entity first applies the amendment. This is taking into account the condition in paragraph 8 of IFRS 10 that requires an investor to reassess whether it controls an investee.

**Proposed amendments to IAS 7 *Statement of Cash Flows***

**ACCA response**

We support the proposal to amend paragraph 37 of IAS 7 to replace the term ‘cost method’ with ‘at cost’, at the earliest possible effective date.