

International Accounting Standards Board
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

11 December 2023

Dear IASB members,

Invitation to comment – Exposure Draft *Annual Improvements – Volume 11*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on on the International Accounting Standards Board's (IASB or the Board) Exposure Draft *Annual Improvements – Volume 11*.

We broadly support the proposed Annual Improvements. We offer some additional considerations in respect of the proposed amendments to IFRS 1.BC2 and IFRS 7.IG14.

However, in respect of the amendments to IFRS 9 for derecognition of lease liabilities, we disagree with the proposal, and we suggest that the Board instead address the issue of rent concessions in a separate narrow-scope standard setting project.

Our detailed responses to the questions are set out in the Appendix to this letter.

Should you wish to discuss the contents of this letter with us, please contact Michiel van der Lof at the above address, or on +31 (88) 407 1030.

Yours faithfully

Ernst + Young Global Limited

Appendix - Responses to specific questions

Nine issues are included in the Annual Improvements (AIP) Exposure Draft (ED), per the table below.

Accounting Standard	Subject of proposed amendments
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Issue 1: Hedge accounting by a first-time adopter
IFRS 7 <i>Financial Instruments: Disclosures</i>	Issue 2: Gain or loss on derecognition
Guidance on implementing IFRS 7 <i>Financial Instruments: Disclosures</i>	Issue 3: Introduction Issue 4: Disclosure of deferred difference between fair value and transaction price Issue 5: Credit risk disclosures
IFRS 9 <i>Financial Instruments</i>	Issue 6: Derecognition of lease liabilities Issue 7: Transaction price
IFRS 10 <i>Consolidated Financial Statements</i>	Issue 8: Determination of a 'de facto agent'
IAS 7 <i>Statement of Cash Flows</i>	Issue 9: Cost method

The same question is asked for each issue, so EY's responses to the questions in the Appendix are structured by issue.

Issue 1: IFRS 1 *First-time Adoption of International Financial Reporting Standards* - Hedge accounting by a first-time adopter

Question – proposed amendments

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.

- We agree with the proposed amendment.
- *We note that IFRS 1.BC2 states that 'However, in accordance with IFRS 1, first-time adopters of IFRS Accounting Standards are required to apply IFRS 9 instead of IAS 39'. While this is generally the case, in our view, first-time adopters are permitted to apply IAS 39 hedge accounting to a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only to such a hedge) since this is permitted by Chapter 6 of IFRS 9, rather than being a transitional provision in Chapter 7 of IFRS 9 that does not apply to first-time adopters. It may, therefore, be appropriate to amend BC2 to explain this nuance.*

Issue 2: IFRS 7 *Financial Instruments: Disclosures* - Gain or loss on derecognition

Question – proposed amendments

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.

- We agree with the proposed amendment.

Issue 3: Guidance on implementing IFRS 7 *Financial Instruments: Disclosures* - Introduction

Question – proposed amendments

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.

- We agree with the proposed amendment.

Issue 4: Guidance on implementing IFRS 7 *Financial Instruments: Disclosures* - Disclosure of deferred difference between fair value and transaction price

Question – proposed amendments

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.

- We agree with the proposed amendment.
- However, there is a concern that the example in IG14 is still unclear as to what entities should disclose, and it is not fully in line with the requirements of IFRS 7.28.
- For example, IFRS 7.28(a) specifically asks for disclosure of ‘its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability’.
- If this is the accounting policy that the example refers to when it states ‘description of the entity’s accounting policy’, then it should be stated specifically; such as ‘description of the entity’s accounting policy with regard to the recognition in profit and loss of the difference that was deferred on initial recognition, arising between the transaction price and the fair value’.

- In addition, as the example currently stands, it also does not seem to deal with the disclosure requirements relating to IFRS 7.28(c). If this is not what the IASB intended, we suggest that the example is amended to include wording to also address the disclosure requirements in this paragraph.

Issue 5: Guidance on implementing IFRS 7 *Financial Instruments: Disclosures* - Credit risk disclosures

Question – proposed amendments

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.

- We agree with the proposed amendment.

Issue 6: IFRS 9 *Financial Instruments* - Derecognition of lease liabilities

Question – proposed amendments

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.

- We disagree with the IASB's approach to address this issue as part of the Annual Improvements process.
- The accounting for rent concessions (referred to in BC1 as an extinguishment of the lease liability) was the subject of two amendments to IFRS 16 (the May 2020 amendment *Covid-19-Related Rent Concessions* and March 2021 amendment *Covid-19-Related Rent Concessions beyond 30 June 2021*). We believe this demonstrates that the IASB believed in the past that rent concessions meet the definition of a lease modification, which is aligned with current practice.
- We observe that by clarifying that a rent concession should be accounted for according to the guidance on derecognition of financial liabilities in IFRS 9 (paragraph 3.3.3), the proposal results in a significant change in practice and may result in follow-up questions on the practical implications of these proposals.
- We are concerned that the proposed clarification would increase diversity in practice as it does not address the interaction with the following guidance, that would appear to be in conflict with the proposals:
 - the definition of a lease modification in IFRS 16 includes a change in the consideration of a lease that was not part of the original terms and conditions of the lease,
 - the guidance in paragraph 46 of IFRS 16 states that only a partial or full termination of the lease results in the recognition of a gain or loss in profit or loss, and

- Illustrative Example 19 of IFRS 16 addresses a modification that is a change in consideration only, which we believe is economically similar to a derecognition of lease liability.
- Given the above, we believe the issue of rent concessions should be addressed in a separate narrow-scope standard setting project.

Issue 7: IFRS 9 *Financial Instruments* - Transaction price

Question – proposed amendments

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.

- We agree with the proposed amendment. However, we suggest that the last sentence in paragraph 5.1.3 is edited as below, because we do not think the wording in brackets is relevant:

'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).'~~'

Issue 8: IFRS 10 *Consolidated Financial Statements* - Determination of a 'de facto agent'

Question – proposed amendments

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.

- We agree with the proposed amendment.

Issue 9: IAS 7 *Statement of Cash Flows* - Cost method

Question – proposed amendments

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.

- We agree with the proposed amendment.