Adoption of May 2020 amendments to international accounting standards *(with an effective date of 1 January 2022)*

Executive Summary

Project Type	Endorsement and adoption
Project scope	Narrow-scope

Purpose of the paper

This paper requests the Board's approval of the individual documents included as part of the 'Adoption Package' for the project to adopt the following six amendments to international accounting standards issued by the IASB in May 2020 with an effective date of 1 January 2022 (the 'May 2020 Amendments'). These amendments are:

- three IASB annual improvements from *Annual Improvements to IFRS Standards 2018–2020*; and
- three IASB narrow-scope amendments.

The documents included as part of the 'Adoption Package' are:

- A final Endorsement Criteria Assessment (ECA);
- A Feedback Statement;
- A [draft] Due Process Compliance Statement; and
- An Adoption Statement.

Summary of the issues

The IASB's amendments included in this project were issued before UK's EU Exit and the EU process for adoption had not been completed before the end of the Transition Period. As a result, these amendments must be adopted for use in the UK to ensure UK companies are able to use them when preparing their financial reports. All UKEB work and outreach on these amendments has been completed and the results incorporated in the Adoption package presented to the Board at this meeting.

Decisions for the Board

The Board is asked to:

a) approve the individual documents included as part of the 'Adoption Package'.

b) Tentatively approve the adoption of the May 2020 Amendments for use in the UK.

Recommendations

We recommend the Board approves the 'Adoption Package' and supports the adoption of the May 2020 Amendments.

Appendices

Appendix 1	Final Endorsement Criteria Assessment (ECA)
Appendix 2	Feedback Statement
Appendix 3	[Draft] Due Process Compliance Statement
Appendix 4	Adoption Statement

Introduction

1. The IASB published six amendments to international accounting standards issued by the IASB in May 2020 with an effective date of 1 January 2022 (hereafter, the "May 2020 Amendments"). However, they were not incorporated into Domestic UK law as UK-adopted international accounting standards at the end of the Transition Period on 31 December 2020, as the European Union's process for adoption of these amendments had not been completed before the UK's Exit from the EU[1]. As a result, these amendments must be adopted for use in the UK to ensure UK companies are able to use them when preparing their financial reports.

2. The UKEB was not able to directly influence the development of the IASB's proposals as the amendments were finalised and published before the creation of the UKEB. However, the amendments have been subject to public consultation and comments from UK stakeholders were submitted directly to the IASB and/or to the European Financial Reporting Advisory Group (EFRAG) and were fully considered by the IASB when finalising those amendments.

3. At the September 2021 Board meeting the Board approved for publication the Draft Endorsement Criteria Assessment (DECA) on the project to endorse and adopt the May 2020 Amendments.

4. The DECA set out the UKEB's provisional assessment of whether the May 2020 Amendments met the UK's statutory requirements for endorsement and adoption. The DECA was published on 29 September 2021 and was open for stakeholder comment until the 18 November 2021[2], subsequently extended to the 30 November 2021.

Background to the May 2020 Amendments

5. The IASB issues amendments to international accounting standards as part of its continuous effort to maintain and improve maintain IFRS Standards and to support consistent application. Five of the six amendments came from questions submitted by external stakeholders to the IFRS Interpretations Committee.

6. The May 2020 Amendments covered in the DECA assessment are:

   a) three amendments that meet the IASB's criteria for annual improvements[3] from *Annual improvements to IFRS® Standards 2018–2020*[4], as follows:

      (i) Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Subsidiary as a First-time Adopter.

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1 The EU completed the adoption and the endorsement of the amendments covered by this paper on 2 July 2021. Source: EU Endorsement Status Report, 2 July 2021.

2 Link to DECA and Invitation to Comment.

3 **Annual improvements** are amendments that meet the criteria in paragraphs 6.10–6.14 in the IASB and IFRS Interpretations Committee Due Process Handbook and are sufficiently minor or narrow in scope that are bundled together in a single Exposure Draft document (even though amendments are unrelated).

4 The DECA excluded the amendment that changed an Illustrative Example in IFRS 16 *Leases*. Illustrative Examples are non-mandatory guidance accompanying a standard. The adoption process applies only to the mandatory sections of standards.

(ii) Amendment to IFRS 9 *Financial Instruments*—Fees in the '10 per cent' Test for Derecognition of Financial Liabilities.
(iii) Amendment to IAS 41 *Agriculture*—Taxation in Fair Value Measurements.

b) three narrow-scope amendments that meet the IASB's criteria for narrow-scope amendments[5] and that were issued separately by the IASB, as follows:

(i) Amendments to IAS 16 *Property, Plant and Equipment*—Property, Plant and Equipment: Proceeds before Intended Use;
(ii) Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—Onerous Contracts—Cost of Fulfilling a Contract; and
(iii) Amendments to IFRS 3 *Business Combinations*—Reference to the Conceptual Framework.

Feedback received

7. The UKEB Secretariat performed outreach with stakeholders to seek their views on whether the May 2020 Amendments to international accounting standards met the endorsement criteria set out in legislation (Regulation 7 in Statutory Instrument 2019/685[6]). Due to the minor and narrow-scope nature of the May 2020 Amendments, the UKEB Secretariat's consultation activities were focused on obtaining responses on the DECA.

8. During the public consultation of the DECA a total of four formal responses were received from stakeholders, three of them fully supporting the UKEB's assessment against the technical criteria in paragraph 1 of Regulation 7 SI 2019/685. These respondents fully supported the adoption of the May 2020 Amendments. One of these respondents mentioned that these amendments should be available for use in the UK as soon as possible.

9. One respondent considered that the UKEB's assessment did not address the true and fair test required by Regulation 7(1)(a) in SI 2019/685 as it was replaced with "something different, 'reflecting economic substance'". In response to this feedback the relevant paragraphs were reviewed to more accurately reflect the UKEB's assessment work. No other wording changes were made to the ECA.

Question for the Board—Feedback received
a) Do Board members have any comments on the feedback received?

5 **Narrow-scope amendments** meet the criteria in paragraph 5.16 in in the IASB and IFRS Interpretations Committee Due Process Handbook and are considered 'narrow' in scope.
6 https://www.legislation.gov.uk/uksi/2019/685/made

Adoption package

10. The 'Adoption Package' for the May 2020 Amendments is included in this paper and the Board's comments and approval are requested for each of the individual documents included for publication on the UKEB website. These documents are:

    a) Appendix 5.1: A final Endorsement Criteria Assessment (ECA), which considers the feedback received on the DECA.
    b) Appendix 5.2: A Feedback Statement, which informs stakeholders how the UKEB has responded to, or addressed, the main comments or views received from stakeholders.
    c) Appendix 5.3: A [draft] Due Process Compliance Statement, which is a closing control report that summarises the due process activities undertaken.
    d) Appendix 5.4: An Adoption Statement.

Questions for the Board—Adoption Package
a) Do Board members have any comments on any of the individual documents included as part of the Adoption Package in Appendices 1—4 of this paper?
b) Do Board members approve the individual documents included as part of the 'Adoption Package'?

Voting on the adoption of the May 2020 Amendments

11. Decisions on the endorsement and adoption of a standard or amendment are made at public Board meetings and follow the requirements of Section 5 of the UKEB's Terms of Reference[7].

12. At this public meeting Board members are required to provide a tentative vote on the adoption of the May 2020 Amendments.

13. This vote will be indicative only and will be formalised via members signing the formal voting form that will be made available to them outside of the meeting. Board members are asked to submit their voting form by 21 February 2022[8].The UKEB Terms of Reference require that the outcome will be made public within 3 working days of the formal vote.

Question for the Board—Voting on the adoption of the May 2020 Amendments
a) Do Board members tentatively approve the adoption of the May 2020 Amendments?

7 Section 5 requires a minimum quorum attendance of sixty percent of the appointed members (including the UKEB Chair as an appointed member) (ToR, paragraph 5.1) and an affirmative written vote of at least two-thirds of all of the appointed Board members (ToR, paragraph 5.2)The Terms of Reference can be found here.

8 Refer to ToR paragraph 5.3.

Next Steps

14. The next project milestones are set out in the table below and diagram in the next page:

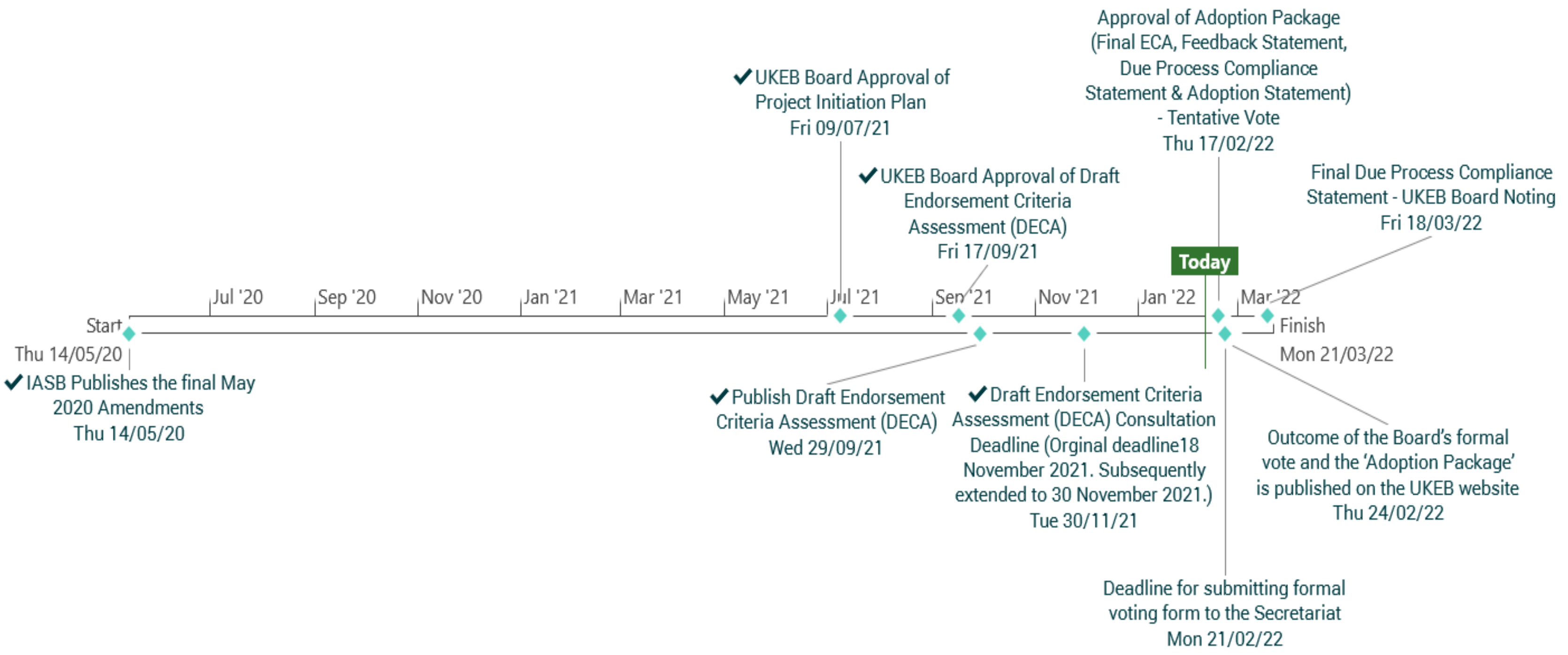
Date	Milestone	Complete
14 May 2020	IASB Publishes the final May 2020 Amendments.	✓
9 July 2021 **Board Meeting**	Board approves PIP.	✓
17 September 2021 **Board Meeting**	Board approves Draft Endorsement Criteria Assessment (DECA).	✓
29 September 2021	• DECA Publication. • Original deadline in the Invitation to Comment for responses: 18 November 2021 and subsequently extended to 30 November 2021.	✓

17 February 2022 **Board Meeting**	• Approval of individual documents included as part of the 'Adoption Package':
	    ○ Final ECA
	    ○ Feedback Statement
	    ○ [Draft] Due Process Compliance Statement
	    ○ Adoption Statement
	• Board members undertake a tentative vote
	• Formal voting form is made available on Board IQ.	

21 February 2022	Deadline for submitting the voting form to the Secretariat.	
24 February 2022	Outcome of the Board's formal vote and the 'Adoption Package' is published on the UKEB website.	
18 March 2022 **Board Meeting**	Final Compliance Statement to Board for noting.	

May 2020 Amendments Plan – Upcoming Tasks

High Level Plan



Endorsement Criteria Assessment: May 2020 amendments to international accounting standards *(with an effective date of 1 January 2022)*

Introduction

Purpose

1. The purpose of this Endorsement Criteria Assessment (DECA) is to determine whether the UK's statutory requirements for endorsement and adoption are met for a set of six amendments to international accounting standards[1] published by the International Accounting Standards Board's (IASB) in May 2020 (with an effective date of 1 January 2022 with earlier application permitted).

2. The amendments covered in this assessment were published by the IASB before the UK's Exit from the EU and were not incorporated into Domestic UK law as UK-adopted international accounting standards at the end of the Transition Period on 31 December 2020. This is because the European Union's process for adoption of these amendments had not been completed before the UK's Exit from the EU[2].

3. The UK Endorsement Board (UKEB) was not able to directly influence the development of the IASB's proposals as the amendments were finalised and published before the creation of the UKEB. However, the amendments have been subject to public consultation and comments from UK stakeholders were submitted directly to the IASB and/or to the European Financial Reporting Advisory Group (EFRAG) and were fully considered by the IASB when finalising those amendments.

Background to the amendments

4. The IASB issues amendments to international accounting standards as part of its continuous effort to maintain and improve maintain IFRS Standards and to support consistent application. Five of the six amendments came from questions submitted by external stakeholders to the IFRS Interpretations Committee.

5. The amendments considered in this assessment consist of:

   a) three 'Annual Improvements' amendments from the *Annual Improvements to IFRS® Standards 2018–2020* (Annual Improvements); and

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1 This is defined in the Companies Act using Article 2 of the IAS Regulation "…'international accounting standards' shall mean International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB)."

2 The EU completed the adoption and the endorsement of the amendments covered by this paper on 2 July 2021. Source: EU Endorsement Status Report, 2 July 2021.

b) three 'Narrow-Scope' amendments issued separately.

6. 'Annual Improvements' are amendments that are sufficiently minor or narrow in scope and are bundled together in a single Exposure Draft (ED) document (even though amendments are unrelated). These amendments meet the criteria in paragraphs 6.10–6.13 of the IASB's Due Process Handbook[3] and are limited to changes that clarify the wording in the standards, or correct relatively minor unintended consequences, oversights or conflicts between existing requirements.

7. 'Narrow-scope' amendments do not meet the criteria for annual improvements but meet the criteria in paragraph 5.16 of the IASB's Due Process Handbook[3] and are considered 'narrow' in scope. Narrow-scope amendments address concerns about a specific aspect of a standard without causing major or significant changes in practice. They are issued and exposed for public comment (separately from annual improvements) when the IASB determines that the narrow-scope amendment merits separate consultation and outreach.

Structure of the assessment

8. We have split our analysis into the following sections:

   a) **Section A:** describes UK Statutory requirements for endorsement and adoption;

   b) **Appendix 1:** discusses how the Annual Improvements meet the criteria in section A; and

   c) **Appendix 2:** discusses how the Narrow-Scope Amendments meet the criteria in section A.

9. For each amendment described in the appendices we provide:

   a) a description and rationale, what has changed and overview of UK views on the ED's proposals;

   b) a technical criteria assessment (refer to paragraph 10(c));

   c) is not contrary to the true and fair view requirement (refer to paragraph 10(a)); and

   d) an assessment of whether the Amendments would be conducive to the UK long term public good (refer to paragraph 10(b) and 11(b).)

3 IASB and IFRS Interpretations Committee Due Process Handbook, IFRS Foundation, (August 2020).

Section A: UK Statutory requirements for endorsement and adoption

10. Paragraph 1 of Regulation 7 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685 requires that an international accounting standard only be adopted if:

    a) "the standard is not contrary to either of the following principles—

        i. an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;

        ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;

    b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and

    c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management."

11. This document assesses the criteria above in the following order:

    a) Technical criteria assessment:

        i. Whether the standard meets the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management (Regulation 7(1)(c)); and

        ii. Whether the standard is not contrary to the principle that an entity's accounts must give a true and fair view (Regulation 7(1)(a)).

    b) Whether use of the standard is likely to be conducive to the long term public good in the UK (Regulation 7(1)(b)). Regulation 7(2) of SI 2019/685 includes specific areas to consider for this assessment. They are:

        i. whether each amendment is likely to improve the quality of financial reporting;

        ii. the costs and benefits that are likely to result from each amendment; and

        iii. whether the amendments are likely to have an adverse effect on the economy of the UK, including on economic growth.

Relevance, Reliability, Comparability and Understandability[4]

12. Information is **relevant** if it is capable of making a difference in the decision-making of users or in their assessment of the stewardship of management. The information may aid predictions of the future, confirm or change evaluations of the past or both.

13. Financial information is **reliable** if, within the bounds of materiality, it:

    a) can be depended on by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;

    b) is complete; and

    c) is free from material error and bias.

14. Information is **comparable** if it enables users to identify and understand similarities in, and differences among, items. Information about an entity should be comparable with similar information about other entities and with similar information about the same entity for another period.

15. Financial information should be readily **understandable** by users with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence.

True and fair view assessment ~~Amendment is not contrary to the true and fair view requirement for individual financial statements and consolidated financial statements~~

16. The UKEB is required to consider whether an international accounting standard being assessed for use in the UK meets certain legislative criteria set out in Regulation 7(1) of SI 2019/685. The first criterion set out in that regulation requires that an international accounting standard can be adopted only if:

    "the standard is not contrary to either of the following principles—

    a) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;

    b) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking; [....]"

17. In this section of the ECA we consider whether the Amendments meet this endorsement criterion. For the sake of brevity, we refer to our assessment against this

[4] These descriptions are based on the qualitative characteristic of financial statements in the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in April 2001. These qualitative characteristics became part of the criteria for endorsement and adoption of IFRS in the EU's IAS Regulation (1606/2002), and, subsequently, in SI 2019/685.

endorsement criterion as 'the true and fair view assessment' and to the principles set out in Regulation 7(1)(a) as the 'true and fair principle'. However, these abbreviated expressions do not imply that our assessment has considered anything other than the full terms of the endorsement criterion set out above.

18. The duty of the UKEB under Regulation 7(1)(a) is to determine generically, before the standard is applied to a set of accounts, whether the proposed Amendments are 'not contrary' to the true and fair principle. Our assessment is separate from the duty of directors under section 393(1) of the Companies Act 2006, where directors are required to be satisfied that a specific set of accounts give a true and fair view of an undertaking or group's assets, liabilities, financial position and profit or loss.

19. Our approach is to consider whether the proposed Amendments are not contrary to the true and fair principle in respect of any of the specific items identified in Regulation 7(1)(a) (namely, the undertaking's assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole.

20. Our assessment also considers whether the Amendments will not be contrary to the true and fair principle on a stand-alone basis and in conjunction with other UK-adopted international accounting standards.

~~Accounting standards provide for recognition, measurement, presentation and disclosure for transactions and events so that the financial statements fairly reflect the economic substance of those underlying transactions and events. The assessment therefore considers whether a standard or an amendment to a standard is not contrary to:~~

~~a) the individual financial statements reflecting the economic substance of transactions and events such that the financial statements give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss; or~~

~~b) the consolidated financial statements reflecting the economic substance of transactions and events such that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking.~~

Appendix 1: Endorsement and adoption of annual improvements (issued 2020)

The IASB issued, on 14 May 2020, four amendments in its *Annual Improvements to IFRS® Standards 2018–2020*. An Exposure Draft of the Amendments was issued on 21 May 2019 (and open for comment until 20 August 2019). The **Annual Improvements amendments** covered in this assessment are:

a) Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Subsidiary as a First-time Adopter.

b) Amendment to IFRS 9 *Financial Instruments*—Fees in the '10 per cent' Test for Derecognition of Financial Liabilities.

c) Amendment to IAS 41 *Agriculture*—Taxation in Fair Value Measurements.

This Endorsement Criteria Assessment excludes the amendment that changed an Illustrative Example in IFRS 16 *Leases.* Illustrative Examples are non-mandatory guidance accompanying a standard[5],[6]. The endorsement and adoption process applies only to the mandatory sections of standards that, if adopted, will become "UK-adopted international accounting standards".

1 Amendments to IFRS 1—Subsidiary as a First-time Adopter	
	Description and rationale
Origin	In 2017 the IFRS Interpretations Committee discussed a request about the accounting applied by a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent. The subsidiary has foreign operations, on which it accumulates translation differences in a separate component of equity. The request asked whether the exemption in paragraph D16(a) of IFRS 1 for measuring the assets and liabilities of a subsidiary that becomes a first-time adopter later than its parent, could be applied (by analogy) to measure cumulative translation differences (CTD) at the amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs. This was despite of: • the exemption in paragraph D16(a) of IFRS 1 not being applicable to the measurement of equity components; • paragraph 18 of IFRS 1 prohibiting the application of exemptions by analogy; and • IFRS 1 already including an exemption in paragraphs D12–D13 of IFRS 1 to measure CTD either at zero or on a retrospective basis at its date of transition to IFRSs.

5 Mandatory pronouncements are IFRS Standards, IAS Standards, Interpretations and mandatory application guidance. Non-mandatory guidance includes basis for conclusions, dissenting opinions, implementation guidance and illustrative examples. This categorisation is set out in the Introduction to the IASB yearly Bound Volumes.

6 The IFRS Foundation and the Department of Business, Energy and Industrial Strategy (BEIS) have a copyright agreement which permits "UK-adopted international accounting standards" to contain copyright material of the IFRS Foundation in respect of which all rights are reserved. The terms of use are set out at the beginning of each UK-adopted international accounting standard.

1 Amendments to IFRS 1—Subsidiary as a First-time Adopter

What has changed?	The Amendments to IFRS 1 added new paragraph D13A to extend the exemption in paragraph D16(a) to the measurement of CTD. Instead of applying paragraph D12 or paragraph D13 of IFRS 1 to measure CTD, a subsidiary that uses the exemption in paragraph D16(a) may elect, in its financial statements, to measure CTD for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs (if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary). This election is available to an associate or joint venture that uses the exemption in paragraph D16(a).
Transition	No transition requirements.
UK views of the ED's proposals	
	The IASB published an Exposure Draft containing amendments to IFRS 1 (as part of the *Annual Improvements to IFRS® Standards 2018–2020*) on 21 May 2019 (and open for comment until 20 August 2019). The UKEB secretariat observes that there were 11 UK respondents to the IASB's proposals. Most of those respondents suggested the IASB permit, rather than require (as the IASB had originally proposed), a subsidiary that applies paragraph D16(a) to measure CTDs using the amount reported by the parent this measurement. This was because some entities applying paragraph D16(a) could in some situations find it burdensome to measure CTDs using the amount reported by the parent. The amendment was finalised in line with the suggestion made by those respondents.
Technical criteria assessment	
Relevance, Reliability and Understandability	The Amendments to IFRS 1 lead to relevant, reliable and understandable information, because they allow a subsidiary entity to measure CTD at an amount that is already recognised in the consolidated financial statements of the parent based on the parent's transition to international accounting standards.
Comparability	The Amendments to IFRS 1 have the potential to impair comparability, because a first-time adopter that applies the exemption in paragraph D16(a) of IFRS 1 can elect to measure CTD using either the exemption in paragraph D13, or the new exemption in paragraph D13A. Nevertheless, a potential lack of comparability could be potentially mitigated by: • providing sufficient disclosures that would enable users understand the reasons for applying the exemptions in IFRS 1 and how applying those exemptions would impact the entity's financial position and financial performance. • focusing on the benefits resulting from the Amendments to IFRS 1—consistency with the requirements for first-time adopters that elect to apply paragraph D16(a) of IFRS 1 as well as cost-savings for preparers.
Conclusion	Overall, we conclude that the May 2020 Amendments to IFRS 1 meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.
Amendment is not contrary to the true and fair view requirement	
	The Amendments to IFRS 1 allow the measurement of CTD at an amount that is already recognised in the consolidated financial statements of the parent and is consistent with the rationale underlying an existing exemption in IFRS 1 of eliminating the requirement to keep two parallel sets of accounting records.
Conclusion	Overall, we conclude the May 2020 Amendments to IFRS 1, improve the requirements in this Standard and do not create any distortions in its interaction with other international accounting standards. Therefore, the UKEB has concluded that the May 2020 Amendments to IFRS 1 are not contrary to the true and fair view principle.

1	*Amendments to IFRS 1—Subsidiary as a First-time Adopter*
	UK long term public good
Does the amendment improve financial reporting?	The Amendments to IFRS 1 improve financial reporting as they simplify and ease the transition to international accounting standards for a subsidiary that uses the exemption in paragraph D16(a) and that that elects to apply D13A of IFRS 1. The Amendments to IFRS 1 allow the measurement of CTD at an amount that is already recognised in the consolidated financial statements of the parent and are consistent with the rationale underlying an existing exemption in IFRS 1 of eliminating the requirement to keep two parallel sets of accounting records.
Costs and benefits for preparers and users	Preparers: The Amendments to IFRS 1 are likely to reduce the administrative burden of a subsidiary that uses the exemption in paragraph D16(a) and that elects to apply D13A of IFRS 1, as they avoid keeping two parallel sets of accounting records for CTD based on different dates of transition to IFRSs—one to prepare the subsidiary's own financial statements and another when the subsidiary reports information for the preparation of the parent's consolidated financial statements. Users: The proposed relief is also likely to provide more consistent information for users as the Amendments to IFRS 1 allow the measurement of CTD at an amount that is already recognised in the consolidated financial statements of the parent.
Conclusion	The May 2020 Amendments to IFRS 1 are limited in scope and will generally bring improved financial reporting when compared to current guidance. The UKEB has not, so far, identified that these amendments could have any adverse effect to the UK economy, including on economic growth. As such, the endorsement is likely to be conducive to the UK long term public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.
Overall conclusion	Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the May 2020 Amendments to IFRS 1, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.

2 Amendments to IFRS 9—Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

Description and rationale	
Origin	In 2016 the IFRS Interpretations Committee discussed a request to clarify which fees and costs should be included in the '10 per cent' test for the purpose of derecognition of a financial liability and in assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. Paragraph 3.3.2 of IFRS 9 requires an entity to derecognise a financial liability and recognise a new financial liability when there is an exchange between an existing borrower and lender of debt instruments with substantially different terms, or, when there is a substantial modification of the terms of an existing financial liability or a part of it. Paragraph B3.3.6 specifies that for the purpose of paragraph 3.3.2 of IFRS 9, the terms are substantially different if the discounted present value of the cash flows including any fees paid net of any fees received under the new terms and discounted 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 (i.e. 10 per cent test).
What has changed?	• Paragraph B3.3.6 of IFRS 9 is amended to clarify that in determining 'fees paid net of fees received' a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. • Some of the requirements in paragraph B3.3.6 of IFRS 9 were moved to new paragraph B3.3.6A (without amendment).
Transition	The Amendments to IFRS 9 are applied to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments (i.e. prospective application).
UK views of the ED's proposals	
	The IASB published an Exposure Draft containing amendments to IFRS 9 (as part of the *Annual Improvements to IFRS® Standards 2018–2020*) on 21 May 2019 (and open for comment until 20 August 2019). The UKEB secretariat observes that there were 11 UK respondents to the IASB's proposals. Most of those respondents agreed with the proposed amendments. A minor suggestion made by a few respondents was to align paragraph AG62 in IAS 39 *Financial Instruments: Recognition and Measurement* with the amendments to paragraph B3.3.6 in IFRS 9 because this paragraph includes the same requirements as paragraph B3.3.6. However, this suggestion was considered unnecessary because the IASB had not contemplated maintaining IAS 39 (other than for hedge accounting).
Technical criteria assessment	
Reliability and Relevance	The clarification provided by the Amendments to IFRS 9 will lead to reliable and relevant information as they are consistent with the objective of the 10 per cent test, which is to quantitatively assess the significance of any difference between the old and new contractual terms based on changes in the contractual cash flows between the borrower and the lender.
Understandability	The clarification provided by the Amendments to IFRS 9 will lead to an understanding of the fees that should be included in the 10 percent test.
Comparability	The application of the Amendments to IFRS 9 result in entities treating similar fees in a similar way which contributes to the comparability of the resulting information.
Conclusion	Overall, we conclude that the May 2020 Amendments to IFRS 9 meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.

2 Amendments to IFRS 9—Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

Amendment is not contrary to the true and fair view requirement	
	The Amendments to IFRS 9 promote the consistent application of the requirements in IFRS 9 by clarifying the fees that should be included in the 10 per cent test.
Conclusion	Overall, we conclude the May 2020 Amendments to IFRS 9, improve the requirements in this Standard and do not create any distortions in its interaction with other international accounting standards. Therefore, the UKEB has concluded that the May 2020 Amendments to IFRS 9, are not contrary to the true and fair view principle.
UK long term public good	
Does the amendment improve financial reporting?	The Amendments to IFRS 9 improve financial reporting as they clarify which fees should be included in the 10 per cent test. This promotes the consistent application of the requirements in paragraph B3.3.6 of IFRS 9.
Costs and benefits for preparers and users	<u>Preparers</u>: The Amendments to IFRS 9 remove inconsistencies in the application of the requirements in paragraph B3.3.6 of IFRS 9 making it easier for preparers to determine which fees should be included in the 10 percent test. The prospective application of the Amendments to IFRS 9 will also provide preparers with cost savings as it might be difficult and costly for some entities to reassess all previous modifications and exchanges. <u>Users</u>: Users will benefit from treating similar fees in a similar way as this would facilitate their understanding and comparative analysis of the financial positions of different entities.
Conclusion	The May 2020 Amendments to IFRS 9 are limited in scope and will generally bring improved financial reporting when compared to current guidance. The UKEB has not, so far, identified that these amendments could have any adverse effect to the UK economy, including on economic growth. As such, the endorsement is likely to be conducive to the UK long term public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.
Overall conclusion	Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the May 2020 Amendments to IFRS 9, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.

3 Amendments to IAS 41—Taxation in Fair Value Measurements

Description and rationale	
Origin	In 2017, the IFRS Interpretations Committee discussed a request to consider amending IAS 41 to remove the reference to cash flows from taxation from paragraph 22 of IAS 41. This paragraph contains specific requirements for measuring the fair value of biological assets. Before 2008, entities using a discounted cash flow technique to measure the fair value of biological assets used a pre-tax cash flows (in accordance with paragraph 22 of IAS 41) and a pre-tax discount rate (in accordance with paragraph 20 of IAS 41) when measuring the fair value of biological assets. In May 2008 the IASB issued *Improvements to IFRSs*, which amended paragraph 20 of IAS 41 (2008 amendment). This amendment removed the requirement in paragraph 20 of IAS 41 for entities to use a pre-tax rate to discount cash flows. However, the reference to 'cash flows from taxation' in paragraph 22 of IAS 41 was not amended and still required an entity to use pre-tax cash flows. In May 2011 the IASB issued IFRS 13 *Fair Value Measurement.* IFRS 13 defines the meaning of 'fair value'. Paragraph B14(d) of IFRS 13 requires the use of internally consistent assumptions about cash flows and discount rates and specifically states that: "…after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows…". IFRS 13 deleted paragraphs 17–21 and paragraph 23 of IAS 41. Paragraph 22 of IAS 41 was not deleted as it contains specific requirements for entities measuring the fair value of biological assets.
What has changed?	Paragraph 22 of IAS 41 is amended to remove the requirement to exclude 'cash flows for taxation' when measuring the fair value of a biological asset using a present value technique, thereby allowing an entity to use internally consistent assumptions about cash flows and discount rates.
Transition	The Amendments to IAS 41 apply to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 (i.e. prospective application).
UK views of the ED's proposals	
	The IASB published an Exposure Draft containing amendments to IAS 41 (as part of the *Annual Improvements to IFRS® Standards 2018–2020*) on 21 May 2019 (and open for comment until 20 August 2019). The UKEB secretariat observes that there were 11 UK respondents to the IASB's proposals. All of those respondents fully agreed with the proposed amendment.
Technical criteria assessment	
Relevance, Reliability and Comparability	The Amendments to IAS 41: • Eliminate inconsistencies within the guidance in IAS 41 (i.e. it required the use of pre-tax cash flows but did not require the use of a pre-tax discount rate to discount those cash flows). This leads to information that is relevant and reliable. • Align the requirements in IAS 41 with IFRS 13 on fair value measurement. Paragraph B14 of IFRS 13 requires assumptions about cash flows and discount rates to be internally consistent. Accordingly, 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. This leads to information that is relevant, reliable and comparable.
Understandability	The Amendments to IAS 41 lead to understandable information when a discounted cash flow technique is used for the fair value measurement of biological assets because the assumptions about cash flows and discount rates are internally consistent.
Conclusion	Overall, we conclude that the May 2020 Amendments to IAS 41 meet the criteria of

3 Amendments to IAS 41—Taxation in Fair Value Measurements	
	relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.
Amendment is not contrary to the true and fair view requirement	
	The Amendments to IAS 41 correct an omission in IAS 41 and are consistent with the requirements in IFRS 13 regarding the use of internally consistent assumptions about cash flows and discount rates, when determining the fair value of biological assets.
Conclusion	Overall, we conclude the May 2020 Amendments to IAS 41, improve the requirements in this Standard and do not create any distortions in its interaction with other international accounting standards. Therefore, the UKEB has concluded that the May 2020 Amendments to IAS 41, are not contrary to the true and fair view principle.
UK long term public good	
Does the amendment improve financial reporting?	The Amendments to IAS 41 improve financial reporting as they will remove inconsistencies in the requirements in IAS 41 when measuring the fair value of biological assets and will align these requirements with IFRS 13 on fair value measurement. They also correct an oversight.
Costs and benefits for preparers and users	Preparers: The overall benefits of the assumptions about cash flows and discount rates of the requirements in IAS 41 are likely to outweigh any costs associated with complying with the Amendments to IAS 41 as the calculations will still need to be done. These Amendments will also help those entities that had difficulties in determining an appropriate discount rate that was consistent with pre-tax cash flows. Users: Users will benefit from information being calculated on an internally consistent basis as this is understandable.
Conclusion	The May 2020 Amendments to IAS 41 are limited in scope and will generally bring improved financial reporting when compared to current guidance. The UKEB has not, so far, identified that these amendments could have any adverse effect to the UK economy, including on economic growth. As such, the endorsement is likely to be conducive to the UK long term public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.
Overall conclusion	Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the May 2020 Amendments to IAS 41, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.

Appendix 2: Endorsement and Adoption of Narrow-Scope Amendments (issued 2020)

The IASB issued, on 14 May 2020, three Narrow-Scope Amendments. These amendments were issued separately. The **Narrow-Scope amendments** covered in this assessment are:

a) Amendments to IAS 16 *Property, Plant and Equipment*— Property, Plant and Equipment: Proceeds before Intended Use—ED/2017/4 issued on 20 June 2017 and open for comment until 19 October 2017.

b) Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—Onerous Contracts—Cost of Fulfilling a Contract—ED/2018/2 issued on 13 December 2018 and open for comment until 15 April 2019.

c) Amendments to IFRS 3 *Business Combinations*—Reference to the Conceptual Framework—ED/2019/3 issued on 30 May 2019 and open for comment until 27 September 2019.

1 *Amendments to IAS 16—Proceeds before Intended Use*	
Description and rationale	
Origin	In 2014, the IFRS Interpretations Committee discussed a request to clarify the accounting in paragraph 17(e) of IAS 16 *Property, Plant and Equipment*. The request asked whether: • the proceeds specified in paragraph 17(e) related only to items produced from testing; and • an entity was required to deduct from the cost of an item of Property, Plant and Equipment (PPE) any such proceeds that exceeded the costs of testing. The request also expressed the need to have a requirement to disclose proceeds from selling items produced and the costs of testing. Paragraph 16(b) of IAS 16 states that the cost of an item of PPE includes costs directly attributable to bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Paragraph 17 of IAS 16 specifies examples of directly attributable costs. Paragraph 17(e) identified as one such example the cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (i.e. available for use).
What has changed?	The Amendments to IAS 16: • Clarify the meaning of 'testing' in paragraph 17(e) of IAS 16 (i.e. "assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes"). • Amend paragraph 17(e) to prohibit the deduction of proceeds received from selling any such items produced from the cost of PPE while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. • Require, in new paragraph 20A, the recognition of the proceeds from selling any such items and the cost of producing those items, in profit or loss in accordance with applicable Standards (i.e. generally by applying IFRS 15 *Revenue from Contracts with Customers* and IAS 2 *Inventories*, respectively).

1	***Amendments to IAS 16—Proceeds before Intended Use***
	• Require, in paragraph 74A(b), the separate disclosure of information about the amounts of sale proceeds and cost included in profit or loss related to items that are not an output of an entity's ordinary activities (if not presented separately in the statement of comprehensive income). This is because, in such circumstances, the presentation and disclosure requirements in IFRS 15 and IAS 2 might not apply to amounts of sale proceeds and costs related to items that are not an output of an entity's ordinary activities.
Transition requirements	The Amendments to IAS 16 are applied retrospectively only to items of PPE that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in which the entity first applies the amendments. The entity recognises the cumulative effect of initially applying the amendments.
UK views of the ED's proposals	
	The IASB published the Exposure Draft on 20 June 2017 (and open for comment until 19 October 2017). The UKEB secretariat observes that there were 10 UK respondents to the IASB's proposals. The UKEB secretariat observes that most respondents agreed with the objective to reduce diversity in practice when applying the requirements in paragraph 17(e) of IAS 16, but many of them disagreed with the proposed solution as they thought it may lead to more estimations and use of judgement. In this respect, some UK stakeholders raised some concerns in identifying costs that relate to items produced and sold before (and after) an item of PPE is available for use, as this would require extensive use of judgement which could in turn result in differences in how entities measure that cost. A few stakeholders observed that allocating those costs would be especially challenging. The UKEB is of the view that the Amendments to IAS 16 will not create new practical implementation challenges from a cost perspective considering the experience that entities already have generally in applying cost allocation methodologies and in measuring the cost of items produced in accordance with IAS 2.
Technical criteria assessment	
Relevance	The Amendments to IAS 16 result in an entity recognising sales proceeds and related cost in profit or loss, as these items meet the definition of income and expense, respectively, in the 2018 *Conceptual Framework*. Recognising those amounts in income and expense faithfully reflects the nature of those items and therefore provides information that has confirmatory value. The disclosure requirements for proceeds and costs that are not an output of an entity's ordinary activities will also enhance the predictive value of the information provided, as it would help users of financial statements identify the sales proceeds and their related costs, thereby helping users tailor the financial information to meet their particular needs.
Reliability and Understandability	The new requirement to recognise sales proceeds and related cost in profit or loss contributes to the provision of reliable information as it provides users of financial statements with a clearer picture of an entity's financial performance and financial position. The previous requirement to offset proceeds against the cost of an item of PPE made it difficult to have a clear picture of: • an entity's performance over time, as it reduced the depreciable amount of the associated item of PPE with a long useful life and, consequently, reduced the depreciation charge recognised as an expense over the asset's useful life; and • the cost of an item of PPE, as it reduced the carrying amount of the asset understating its cost, which could in turn reduce the usefulness of financial metrics based on an entity's total assets (such as the return on capital employed).

1 Amendments to IAS 16—Proceeds before Intended Use	
	Clarifying the meaning of 'testing' in paragraph 17 of IAS 16, might help an entity determine when an asset is available for use and reduce the confusion around the notion of 'testing', thereby the information presented is reliable. The requirements in paragraph 74A(b) to disclose separately the proceeds and costs related to goods or services that are not an output of the entity's ordinary activities will enable users of financial statements to identify such proceeds and their related costs, thereby leading an understanding of this information for their analysis.
Comparability	The Amendments to IAS 16 have the potential to eliminate the current diversity in practice in the recognition of sale proceeds and related costs, which can provide comparability of financial information between entities on the reporting of sales proceeds before intended use.
Conclusion	Overall, we conclude that the May 2020 Amendments to IAS 16 meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.
Amendment is not contrary to the true and fair view requirement	
	The Amendments to IAS 16 result in an entity recognising sales proceeds and related cost in profit or loss, as these items meet the definition of income and expense, respectively, in the 2018 *Conceptual Framework*. Recognising those amounts in income and expense more faithfully reflects the nature of those items as well as an entity's performance.
Conclusion	Overall, we conclude the May 2020 Amendments to IAS 16, improve the requirements in this Standard and do not create any distortions in its interaction with other international accounting standards. Therefore, the UKEB has concluded that the May 2020 Amendments to IAS 16, are not contrary to the true and fair view principle.
UK long term public good	
Does the amendment improve financial reporting?	The Amendments to IAS 16 will improve financial reporting by: • clarifying the meaning of 'testing' and prohibiting the deduction of proceeds received from selling any such items produced from the cost of PPE, thereby removing diversity in reporting practices; and • providing users with a clearer picture of the total cost of an item of PPE (and thus of the consumption of this asset in future reporting periods) and of an entity's total revenue (or income) for each period.
Costs and benefits for preparers and users	<u>Preparers</u>: Applying the Amendments to IAS 16 would not result in specific implementation difficulties for many industries or in a significant level of additional judgement beyond that already required in applying international accounting standards, given that entities usually need to allocate costs, e.g. by applying IAS 2 to measure the cost of items produced. Preparers would also not have to incur additional costs to apply the Amendments to IAS 16 retrospectively (to assets made available for use many years ago), as the transition requirements limit the number of assets an entity is required to reassess on first applying the amendments. <u>Users</u>: The Amendments to IAS 16 promote consistency in the accounting for sales proceeds before intended use and related costs, which could assist users of financial statements with their analysis, thereby reducing costs. It will also enable users of financial statements to identify proceeds before intended use, and to understand how those proceeds and related cost affect an entity's performance.
Conclusion	The May 2020 Amendments to IAS 16 are limited in scope and will generally bring improved financial reporting when compared to current guidance. The UKEB has not, so far, identified that these amendments could have any adverse effect to the UK economy, including on economic growth. As such, the endorsement is likely to be

1	*Amendments to IAS 16—Proceeds before Intended Use*
	conducive to the UK long term public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.
Overall conclusion	Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the May 2020 Amendments to IAS 16, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.

2 *Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract*

Description and rationale	
Origin	In 2017 the IFRS Interpretations Committee discussed a request to clarify the application of paragraphs 66–68 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to contracts with customers that were previously within the scope of IAS 11 *Construction Contracts* and are now within the scope of IFRS 15 *Revenue from Contracts with Customers.* In particular, the costs an entity considers in estimating the 'cost of fulfilling' a contract and assessing whether a contract is onerous by applying IAS 37. The request observed that the need for clarification was urgent given that: • IAS 11 specified which costs to include, however IAS 11 was withdrawn by IFRS 15. • Paragraph 5(g) of IAS 37 brings contracts with customers within the scope of IFRS 15 (including those previously within the scope of IAS 11) into the scope of IAS 37 when assessing whether contracts are onerous. Paragraphs 66–68 of IAS 37 include requirements for onerous contracts. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs of a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from the failure to fulfil it.
What has changed?	A new paragraph 68A is added to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. This paragraph clarifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract' which include: • incremental costs of fulfilling that contract; and • an allocation of other costs that relate directly to fulfilling contracts. The terminology in paragraph 69 of IAS 37 was amended to clarify that the requirement to recognise any impairment loss before establishing an onerous contract provision applies to all assets whose cost would be considered in assessing whether the contract is onerous.
Transition requirements	The Amendments to IAS 37 apply to contracts for which an entity has not yet fulfilled all its obligations at the date of initial application. The entity shall not restate comparative information. Instead, the entity recognises the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. Retrospective application is not permitted.
UK views of the ED's proposals	
	The IASB published the Exposure Draft on 13 December 2018 (and open for comment until 15 April 2019). The UKEB secretariat observes that there were 12 UK respondents to the IASB's proposals. The UKEB secretariat observes that most respondents welcomed the approach to identify which costs are included in the assessment of whether a contract is onerous (i.e. costs that are directly related to the contract). However, some respondents expressed concerns, about the IASB's original proposal to include examples of costs that are directly related to the contract. A few suggested the IASB to replace or reinforce the examples with a description of the types of costs that relate directly to a contract. The IASB agreed with this suggestion and replaced the list of examples with further guidance of the costs that are directly related to the contract. One UK stakeholder was concerned that the proposed amendment would not provide useful information if an entity prices contracts considering only incremental costs. In their view, the proposed amendments would produce an outcome that is inconsistent

2 *Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract*

	with commercial reality in that situation. Another UK stakeholder raised some concerns with the approach to include all costs directly related to the contract as it observed that this approach would be complex and costly given the volume and the nature of their contracts with customers. The UKEB is of the view the Amendments to IAS 37 will not be significantly costly to apply in practice as entities are likely to already have the information they need to estimate and allocate the costs that relate directly to contracts into which they have entered.
Technical criteria assessment	
Relevance and Reliability	The Amendments to IAS 37 provide clarity on which costs to consider when assessing whether the contract is onerous, which results in relevant and reliable information for estimating future cash flows, for confirming past predictions and for assessing management's stewardship.
Comparability and Understandability	The Amendments to IAS 37 promote consistent application in determining the cost of fulfilling a contract and help eliminate the current diversity in practice in determining the cost of fulfilling a contract, which results in comparable and understandable information about the contracts classified as onerous.
Conclusion	Overall, we conclude that the May 2020 Amendments to IAS 37 meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.
Amendment is not contrary to the true and fair view requirement	
	The Amendments to IAS 37 provide consistency in determining the cost of fulfilling a contract. These amendments are also aligned with the requirements in other international accounting standards for recognising costs when measuring non-monetary assets.
Conclusion	Overall, we conclude the May 2020 Amendments to IAS 37, improve the requirements in this Standard and do not create any distortions in its interaction with other international accounting standards. Therefore, the UKEB has concluded that the May 2020 Amendments to IAS 37, are not contrary to the true and fair view principle.
UK long term public good	
Does the amendment improve financial reporting?	The clarification provided by the Amendments to IAS 37 improve financial reporting as it reduces the current diversity in practice in determining the cost of fulfilling a contract. It also promotes more consistency when determining the cost of fulfilling a contract for all onerous contracts within the scope of IAS 37. The added clarification is consistent with the requirements in other international accounting standards for measuring costs of non-monetary assets. For example, IFRS 15 states that an entity recognises as an asset costs incurred in fulfilling a contract if they 'relate directly' to the contract. IAS 2 *Inventories* states that an entity includes in the cost of inventories costs 'directly attributable' to the acquisition of finished goods, material and services, and costs 'directly related' to units of production; and IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 40 *Investment Property* all state that an entity includes 'directly attributable' costs in the cost of an item of property, plant and equipment, intangible assets and investment property.
Costs and benefits for preparers and users	<u>Preparers</u>: The Amendments to IAS 37 bring more clarity to preparers who have found it difficult to interpret what costs to include when assessing whether a contract should be classified as onerous. Preparers will also not have to incur additional costs to apply the amendments retrospectively, as on transition entities are required to apply the Amendments to IAS 37 only to contracts for which the entity has not fulfilled all its obligations at the date of initial application, without restating comparative amounts.

2	*Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract*
	Users: Classifying similar contracts in a consistent way, also helps users understand and compare the financial positions of different entities.
Conclusion	The May 2020 Amendments to IAS 37 are limited in scope and will generally bring improved financial reporting when compared to current guidance. The UKEB has not, so far, identified that these amendments could have any adverse effect to the UK economy, including on economic growth. As such, the endorsement is likely to be conducive to the UK long term public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.
Overall conclusion	Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the May 2020 Amendments to IAS 37, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.

<table>
<tr><th colspan="2">3 Amendments to IFRS 3—Reference to the Conceptual Framework</th></tr>
<tr><th colspan="2">Description and rationale</th></tr>
<tr><td>Origin</td><td>The revised Conceptual Framework for Financial Reporting ('the 2018 Conceptual Framework') was issued by the IASB in March 2018. At the same time, the IASB issued Amendments to References to the Conceptual Framework in IFRS Standards. This resulted in updating some references and quotations in international accounting standards so that they refer to the 2018 Conceptual Framework.
The reference to the previous Framework for the Preparation and Presentation of Financial Statements ('the Framework') in paragraph 11 of IFRS 3 Business Combinations was retained to avoid making significant changes to the requirements in IFRS 3, as updating the references to the 2018 Conceptual Framework could have resulted in:
additional assets and liabilities being recognised in a business combination at acquisition date; and
'day 2 gains or losses' being recognised, subsequent to the acquisition date, when some of the assets and liabilities initially recognised did not qualify for recognition under other applicable international accounting standards.</td></tr>
<tr><td>What has changed?</td><td>The Amendments to IFRS 3:
Replace the reference to the 'old' 1989 Framework in paragraph 11 of IFRS 3 with a reference to the 2018 Conceptual Framework.
Paragraph 11 of IFRS 3 specifies that, to qualify for recognition at the acquisition date, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the 2018 Conceptual Framework; and
Paragraph 54 of IFRS 3 specifies that after the acquisition date, an entity generally accounts for those assets and liabilities in accordance with other applicable IFRS Standards for those items.
Add an exception (in new paragraphs 21A-21C) to the recognition principle of IFRS 3 that is applicable to liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately, rather than assumed in a business combination. This is to avoid the issue of potential 'day 2 gains or losses'. This exception requires an acquirer to apply the criteria in IAS 37 to determine whether at the acquisition date, a present obligation exists; or to apply the criteria in IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.
Add paragraph 23A to IFRS 3 to explicitly state that IFRS 3 prohibits the recognition of contingent assets acquired in a business combination—this prohibition was already inferred from the recognition principle in IFRS 3 and from paragraph BC276 of the Basis for Conclusions accompanying IFRS 3 but was not stated explicitly in IFRS 3 itself.</td></tr>
<tr><td>Transition requirements</td><td>The Amendments to IFRS 3 are applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022.
Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by Amendments to References to the Conceptual Framework in IFRS Standards, issued in March 2018.</td></tr>
<tr><th colspan="2">UK views of the ED's proposals</th></tr>
<tr><td></td><td>The IASB published the Exposure Draft on 30 May 2019 (and open for comment until 27 September 2019).
The UKEB secretariat observes that there were 7 UK respondents to the IASB's proposals.
The UKEB secretariat observes that all of those respondents agreed to remove a</td></tr>
</table>

3 Amendments to IFRS 3—Reference to the Conceptual Framework	
	reference to the old Conceptual Framework from IFRS 3. Most of the respondents agreed to add to IFRS 3 an exception to its recognition principle (for liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21) to avoid the recognition of 'day 2 gains or losses'.
Technical criteria assessment	
Relevance	The exception added to the recognition principle in IFRS 3 is relevant as the information provided eliminates information that: • Has no predictive or confirmatory value such as 'day 2 gains or losses' that do not represent economic gains or losses. • Is not useful for assessing the management's stewardship.
Reliability	The Amendment to IFRS 3 will enhance the reliability and faithful representation of liabilities and contingent liabilities at acquisition date as it will: • Add clarity on the application of only one version of the *Conceptual Framework* (i.e. 2018 version) which would eliminate confusion. • Avoid conflicts between IFRS 3 and IAS 37 or IFRIC 21, while at the same time achieving the objective of updating references in IFRS 3 to the 2018 *Conceptual Framework* without changing the requirements in IAS 37 or IFRIC 21. • Avoid the problem of 'day 2 gains or losses'. • Clarify that an acquirer should not recognise contingent assets acquired in a business combination.
Comparability and Understandability	Updating and aligning references in international accounting standards to the 2018 *Conceptual Framework* will eliminate unnecessary complexity or confusion that can arise from having more than one version of the Conceptual Framework in use and results in comparable information. The clarification that an acquirer should not recognise contingent assets acquired in a business combination, will also result in comparable information by reducing diversity in practice in the application of the requirements in IFRS 3.
Conclusion	Overall, we conclude that the May 2020 Amendments to IFRS 3 meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.
Amendment is not contrary to the true and fair view requirement	
	The Amendments to IFRS 3 update the reference to the 2018 *Conceptual Framework* and introduce an exception to the recognition principles in IFRS 3 in a manner that avoids recognition of gains and losses that do not reflect any economic gain and loss. These amendments also eliminate any negative interactions with IAS 37 or with IFRIC 21 and enhance the faithful representation of liabilities and contingent liabilities at acquisition date.
Conclusion	Overall, we conclude the May 2020 Amendments to IFRS 3, improve the requirements in this Standard and do not create any distortions in its interaction with other international accounting standards. Therefore, the UKEB has concluded that the May 2020 Amendments to IFRS 3, are not contrary to the true and fair view principle.
UK long term public good	
Does the amendment improve financial reporting?	The Amendments to IFRS 3 update the reference to the 2018 *Conceptual Framework* in a manner that avoids any: • unintended consequences (i.e. the recognition of gains and losses that do not reflect any economic gain and loss); and • negative interactions or conflicts with IAS 37 or IFRIC 21.
Costs and benefits	<u>Preparers</u>: Preparers are likely to benefit from having one version of the *Conceptual*

3 Amendments to IFRS 3—Reference to the Conceptual Framework	
for preparers and users	*Framework.* Clearer guidance in IFRS 3 will help preparers applying the requirements as the Amendments to IFRS 3 eliminate unnecessary complexity. The added exception will also bring cost savings to preparers who will not have to derecognise assets or liabilities (recognised in a business combination) and recognise the so-called 'day 2' gains or losses that do not depict an economic gain or loss. Preparers would also not have to incur additional costs to apply the amendments retrospectively (to assets made available for use many years ago), as the transition requirements require an entity to apply the Amendment to IFRS 3 to business combinations for which the acquisition date is on or after the effective date of the amendments. <u>Users</u>: The Amendments to IFRS 3 will bring benefits to users as preparers will be able to portray their financial performance more faithfully.
Conclusion	The May 2020 Amendments to IFRS 3 are limited in scope and will generally bring improved financial reporting when compared to current guidance. The UKEB has not, so far, identified that these amendments could have any adverse effect to the UK economy, including on economic growth. As such, the endorsement is likely to be conducive to the UK long term public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.
Overall conclusion	Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the May 2020 Amendments to IFRS 3, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.

UKEB UK Endorsement Board

UKEB FEEDBACK STATEMENT

May 2020 amendments to international accounting standards

(with an effective date of 1 January 2022)

[Agenda Paper 5: Appendix 2]
[DRAFT FOR BOARD REVIEW]

17 February 2022

The UK Endorsement Board (UKEB)

The UKEB is responsible for endorsement and adoption of IFRS for use in the UK and is therefore the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

The purpose of this Feedback Statement

This document presents the views of UK stakeholders received during the UKEB's public consultation on the Draft Endorsement Criteria Assessment (DECA) of three IASB's annual improvements amendments and three IASB's narrow-scope amendments and explains how the UKEB has addressed those views in the final ECA.

Contents

UKEB

Background

The IASB issues amendments to international accounting standards to maintain and improve IFRS Standards.

In May 2020 the IASB finalised and published the 'May 2020 Amendments':

- four IASB **annual improvements** [1] from *Annual Improvements to IFRS® Standards 2018–2020* and
- three **narrow-scope amendments** that were published separately by the IASB.

The UKEB was not able to directly influence the May 2020 Amendments as the IASB finalised them before the creation of the UKEB.

The UKEB commenced work on the adoption of the May 2020 Amendments in the second half of 2021.

The UKEB Secretariat reviewed the comments from UK stakeholders to understand how they had been considered by the IASB when finalising those Amendments.

The Secretariat's desk-based research indicated that the May 2020 Amendments had been subject to public consultation and comments from UK stakeholders had been submitted directly to the IASB and/or to the European Financial Reporting Advisory Group (EFRAG).

The Board approved the DECA at its September 2021 Board meeting. The DECA was published for comment on 29 September 2021 (comments due by 30 November 2021).

[1] The ECA excludes the annual improvement amendment that changed an Illustrative Example in IFRS 16 *Leases*. Illustrative Examples are non-mandatory guidance accompanying a standard. The adoption process applies only to the mandatory sections of standards.

Description of May 2020 Amendments (1/2)

The ECA considered as part of the assessment the following IASB annual improvements:

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Subsidiary as a First-time Adopter	Amendments to IFRS 9 *Financial Instruments*—Fees in the '10 per cent' Test for Derecognition of Financial Liabilities	Amendments to IAS 41 *Agriculture*—Taxation in Fair Value Measurements
Simplifies the transition to IFRS Standards for a subsidiary that becomes a first-time adopter of IFRS Standards. This is to avoid the need to maintain parallel sets of accounting records based on different dates of transition. Allows a subsidiary that becomes a first-time adopter of IFRS Standards to apply the exemption in paragraph D16(a) of IFRS 1 to measure cumulative translation differences for all foreign operations using the amounts reported by its parent, based on the parent's date of transition to IFRS Standards.	Clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. The borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf.	Promotes consistency of the requirements in IAS 41 with the requirements in IFRS 13 *Fair Value Measurement*. Removes the requirement in paragraph 22 of IAS 41 to exclude cash flows for taxation when measuring the fair value of a biological asset using a present value technique.

UKEB

Description of May 2020 Amendments (2/2)

The ECA considered as part of the assessment the following IASB narrow-scope amendments:

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—Onerous Contracts—Cost of Fulfilling a Contract	Amendments to IAS 16 *Property, Plant and Equipment*—Proceeds before Intended Use	Amendments to IFRS 3 *Business Combinations*—Reference to the Conceptual Framework
Clarifies which costs to include in estimating the 'cost of fulfilling' a contract for the purpose of assessing whether that contract is onerous. Specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. These costs can either be: - incremental costs of fulfilling that contract; or - an allocation of other costs that relate directly to fulfilling contracts.	Provides guidance on the accounting for sale proceeds and related production costs. Prohibits an entity from deducting from the cost of property, plant and equipment any proceeds received from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items and related cost, in profit or loss.	Requires an entity to refer to the latest version of the Conceptual Framework (2018) when determining what constitutes an asset or a liability. To avoid an unintended consequence of updating that reference, the amendment to IFRS 3 also adds an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead apply IAS 37 or IFRIC 21 *Levies*.

UKEB

Outreach approach

The UKEB Secretariat performed outreach with stakeholders to seek their views on whether the May 2020 Amendments to international accounting standards met the endorsement criteria set out in legislation (Regulation 7 in Statutory Instrument 2019/685).

Due to the minor and narrow-scope nature of the May 2020 Amendments, the UKEB Secretariat's consultation activities were focused on obtaining responses on the DECA.

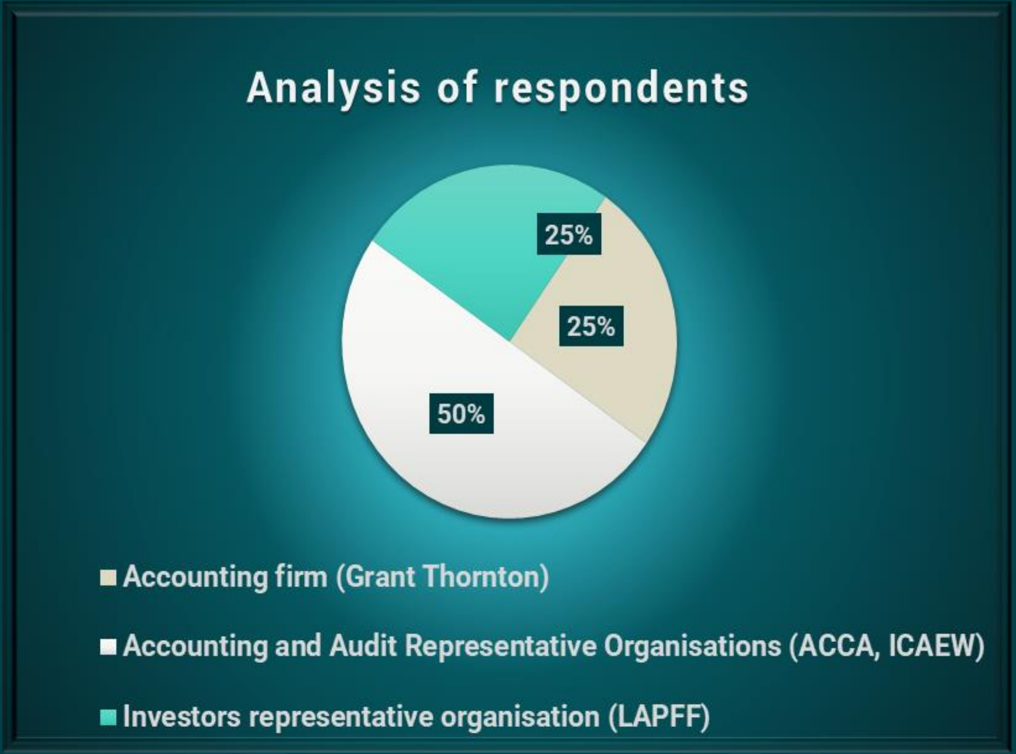
UKEB public consultation on the Draft ECA

The UKEB's public consultation on the Draft ECA took place between 29 September 2021 and 30 November 2021.

During the consultation period the UKEB and its Secretariat encouraged stakeholders to respond to the DECA through News Alerts and through advertising through the usual channels.

A total of 4 formal responses were received from stakeholders.

The graph below provides an analysis of respondents by type of organisation represented.



Overall assessment

During the public consultation of the DECA a total of four formal responses were received from stakeholders, three of them fully supporting the UKEB's assessment against the technical criteria in paragraph 1 of Regulation 7 SI 2019/685. These respondents fully supported the adoption of the May 2020 Amendments. One of these respondents mentioned that these amendments should be available for use in the UK as soon as possible.

One respondent considered that the UKEB's assessment did not address the true and fair test required by Regulation 7(1)(a) in SI 2019/685 as it was replaced with "something different, 'reflecting economic substance'". In response to this feedback the relevant paragraphs were reviewed to more accurately reflect the UKEB's assessment work.

UKEB

Disclaimer

- This feedback statement has been produced in order to set out the UKEB response to stakeholder comments received on the Draft Endorsement Criteria Assessment for the May 2020 annual improvements and narrow-scope amendments with an effective date of 1 January 2022 and should not be relied upon for any other purpose.
- The views expressed in this feedback statement are those of the UKEB at the point of publication.
- Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

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[DRAFT] Due Process Compliance Statement: May 2020 amendments to international accounting standards *(with an effective date of 1 January 2022)*

Endorsement process: May 2020 amendments to international accounting standards *(with an effective date of 1 January 2022)*			
Step	Required / Optional	Metrics or evidence	UKEB secretariat comments
IASB's due process documents			
Annual improvements to IFRS® Standards 2018–2020 cycle		**Exposure Draft published:** 21/05/2019 **Comment deadline**: 20/08/2019 **Final amendments published**: 14/05/2020	The IASB issued four amendments in its 2018–2020 annual improvements cycle. This project excludes the amendment that changed an Illustrative Example in IFRS 16 *Leases*, because Illustrative Examples are not an integral part of a Standard and the endorsement and adoption process applies only to text that is an integral part of a Standard
Amendments to IAS 16 *Property, Plant and Equipment*—Property, Plant and Equipment: Proceeds before Intended Use		**Exposure Draft published:** ED/2017/4 20/06/2017 **Comment deadline**: 19/10/2017 **Final amendment published**: 14/05/2020	
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—Onerous Contracts—Cost of Fulfilling a Contract		**Exposure Draft published:** ED/2018/2 13/12/2018 **Comment deadline**: 15/04/2019 **Final amendment published**: 14/05/2020	
Amendments to IFRS 3 *Business Combinations*—Reference to the Conceptual Framework		**Exposure Draft published:** ED/2019/3 30/05/2019 **Comment deadline**: 27/09/2019	

Endorsement process:
May 2020 amendments to international accounting standards
(with an effective date of 1 January 2022)

Step	Required / Optional	Metrics or evidence	UKEB secretariat comments
		Final amendment published: 14/05/2020	
Project preparation			
Technical project added to UKEB technical work plan and discussed	Required	Project is included in the published technical UKEB Work Plan.	Yes. This is the link to the May 2020 Amendments project page.
Project preparation and Project Initiation Plan (PIP)	Required	PIP draft with outline (background, scope project objective) and approach for endorsement and adoption (key milestones and timing)	Yes. The Secretariat included mandatory milestones for the project and considered, as appropriate, other milestones and activities, following a proportionate approach.
	Required	Consultation plan	Yes. Due to the minor and narrow-scope nature of the amendments, consultation activities were focused solely on obtaining responses on the Draft Endorsement Criteria Assessment (DECA) (as posted on the UKEB website).
	Required	Resources allocated	1 Project manager (Denise Durant) overseen by 1 Senior Project Director (Annette Davis).
	Required	Assessment of whether to set up an ad-hoc advisory group	Not assessed due to the minor and narrow-scope nature of the amendments, following a proportionate approach.
	Required	UKEB Board public meeting held to approve PIP	Yes, PIP approved at 09/07/21 meeting. Link to PIP: agenda paper 5 and appendices to this paper: 5.1, 5.2, 5.3 and 5.4.
	Optional	UKEB Education or initial assessment	Not assessed due to resource constraints and late commencement of project. A brief outline of each amendment was given when discussing the PIP.

Endorsement process:
May 2020 amendments to international accounting standards
(with an effective date of 1 January 2022)

Step	Required / Optional	Metrics or evidence	UKEB secretariat comments
Communications			
Communications	Required	UKEB Board public meetings held to discuss technical project	Yes. **09/07/21** Approve PIP (agenda paper 5) **17/09/21** Approve DECA (agenda paper 8) **17/02/22** Adoption Package to be approved comprised of: • Final Endorsement Criteria Assessment (ECA) • Feedback Statement • [Draft] Due Process Compliance Statement and • Adoption Statement.
	Required	Board meeting papers posted and publicly available on a timely basis.	Yes. • Link to PIP: agenda paper 5 and Appendices: 5.1, 5.2, 5.3 and 5.4 (July 9 2021) • Link to DECA: agenda paper 8 (September 17 2021).
	Required	Project website contains a project description and up to date information.	Yes.
Desk-based research			
	Optional	Identify relevant research sources and documents	Yes. Given that the amendments were published by the IASB in May 2020, before the UK's Exit from the EU and before the creation of the UKEB, the Board or the Secretariat had not been involved in influencing the IASB's proposals. However, the Secretariat's desk-based review of IASB's previous work on the amendments, of the UK responses to the proposals, and the basis for conclusions for each final amendment confirmed that the comments from UK stakeholders had been fully considered by the IASB. This analysis was included as an Appendix to the PIP discussed by the Board at the July 9 2021 Board meeting (agenda paper 5.4).

Endorsement process:
May 2020 amendments to international accounting standards
(with an effective date of 1 January 2022)

Step	Required / Optional	Metrics or evidence	UKEB secretariat comments
			The Secretariat also reviewed EFRAG's Endorsement Advice Letters to the European Commission for each one of the amendments included in this project[1].
	Optional	Agree hypothesis and questions for research	Yes. It was agreed that: • The amendments are minor and/or narrow in scope as they meet the IASB's annual improvements criteria and/or meet the IASB's criteria for narrow-scope amendments. • The comments from UK stakeholders had been submitted directly to the IASB and/or to the European Financial Reporting Advisory Group (EFRAG) and considered by the IASB when finalising the amendments.
Outreach activities			
Advisory groups			
	Optional	Number of standing advisory group meetings	None. These groups have not yet been set up.
Fieldwork undertaken			
Surveys, field tests, workshops or other public events.	Optional	Numbers for stakeholder outreach and venues documented	None. Due to the minor and narrow-scope nature of the amendments, consultation activities were focused on obtaining responses on the Draft Endorsement Criteria Assessment (DECA).
UKEB Draft Endorsement Criteria Assessment (DECA)			
Draft comment letter	Required	DECA approved for publication at UKEB public meetings	Yes, approved at **17/09/21** Board meeting.
	Required	Publication of DECA, including deadline for responses, posted on UKEB Website for public consultation	Yes. Published: **29/09/2021** Comment deadline in the Invitation to Comment: **18/11/2021** and

[1] These letters are publicly available in https://www.efrag.org/.

Endorsement process:
May 2020 amendments to international accounting standards
(with an effective date of 1 January 2022)

Step	Required / Optional	Metrics or evidence	UKEB secretariat comments
			subsequently extended to **30/11/2021.** Link to DECA and Invitation to Comment (as posted on the UKEB website).
	Required	News Alert published to announce publication	Yes
	Required	Public responses on DECA posted on website	Four comment letters received from: ACCA, ICAEW, Local Authority Pensions Fund Forum (LAPFF) and Grant Thornton.
Finalisation			
Final Endorsement Criteria Assessment (ECA)	Required	Final ECA approved for publication at UKEB public meeting.	To be approved at the **17/02/22** Board meeting
Feedback statement	Required	Draft Feedback Statement for discussion and review at UKEB public meeting	Feedback Statement to be approved at Board meeting **17/02/22**.
	Required	Feedback Statement posted on UKEB Website	To take place following Board approval of the Feedback Statement.
	Required	News Alert published to announce publication	To take place following posting to website.
Due Process Compliance Statement	Required	Due Process Compliance Statement approved by UKEB in public meeting	To consider at **17/02/22** Board meeting.
	Required	Due Process Compliance Statement posted on UKEB Website	To take place following Board approval of the Due Process Compliance Statement.
Voting			
Vote on Adoption Package	Required	Evidence of written vote (in paper or electronic form).	Vote to be formalised by circulation following the meeting.
	Required	News Alert published to announce the outcome of the vote to adopt the May 2020 amendments	To take place following posting to website.

Conclusion
The PIP explained that the amendments included as part of this project were published by the IASB in May 2020, before the UK's Exit from the EU and before the creation of the UKEB and that the Board or the Secretariat had not been involved in influencing the IASB's proposals. To mitigate the impact of this, the Secretariat performed extensive desk-based research to confirm that the comments from UK stakeholders had been fully considered by the IASB. In addition, due to the minor and narrow-scope nature of the amendments the outreach activities for this project were focused on obtaining responses on the DECA. Overall, this project due process complies with the UKEB Due Process that is in place at the time of writing.

Approval
Does the Board approve the Due Process Compliance Statement for publication for the May 2020 Amendments?

[Adoption Statement]

[Adoption of May 2020 amendments to international accounting standards]

1. The UK Endorsement Board is designated under regulation 2(1) of The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609[1] ("the Delegating Regulations") for the purpose of enabling it to exercise functions of the Secretary of State under Chapter 3 of Part 2 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685[2] ("the Regulations").

2. The UK Endorsement Board, in exercise of the powers conferred by regulation 6(1) of the Regulations, adopts the following amendments to international accounting standards published in May 2020 by the International Accounting Standards Board (IASB), for use within the United Kingdom—

   a) three IASB amendments from *Annual Improvements to IFRS® Standards 2018–2020*[3], which include:

      i. Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Subsidiary as a First-time Adopter

      ii. Amendment to IFRS 9 *Financial Instruments*—Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

      iii. Amendment to IAS 41 *Agriculture*—Taxation in Fair Value Measurements

   b) three narrow-scope amendments, issued separately by the IASB which include:

      i. Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—Onerous Contracts—Cost of Fulfilling a Contract

      ii. Amendments to IAS 16 *Property, Plant and Equipment*—Property, Plant and Equipment: Proceeds before Intended Use

      iii. Amendments to IFRS 3 *Business Combinations*—Reference to the Conceptual Framework

1 Accessible here: https://www.legislation.gov.uk/uksi/2021/609/contents/made
2 Accessible here: https://www.legislation.gov.uk/uksi/2019/685/contents
3 The Endorsement Criteria Assessment excludes the amendment that changed an Illustrative Example in IFRS 16 *Leases*. Illustrative Examples are non-mandatory guidance accompanying a standard. The endorsement and adoption process applies only to the mandatory sections of standards that, if adopted, will become "UK-adopted international accounting standards".

3. In accordance with regulation 7(1) of the Regulations, the UK Endorsement Board is of the view that:

   a) the standard[4] is not contrary to either of the following principles—

      i. an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;

      ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;

   b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and

   c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

4. In accordance with regulation 8 of the Regulations, the UK Endorsement Board is of the view that adequate consultation with persons representative of those with an interest in the quality and availability of accounts, including users and preparers of accounts, has been undertaken before the Adoption decision.

5. The International Accounting Standard in paragraph 1(a)-

   a) must be used for financial years beginning on or after 1 January 2022;

   b) may be used for financial years beginning before 1 January 2022.

6. The text of the adopted amendments to international accounting standards is set out here [link].

[4] This term has the meaning given in SI 2019/685 by referring to Article 2 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards:
'…'international accounting standards' shall mean International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB)'.

[Approval by the UKEB Board]

[Adoption of May 2020 amendments to international accounting standards]

The amendments to international accounting standards published in May 2020 by the IASB were approved for adoption by [all] 11 members of the UK Endorsement Board.

Pauline Wallace	Chair
Amir Amel-Zadeh	
Michael Ashley	
Philip Aspin	
Kathryn Cearns	
Katherine Coates	
Paul Lee	
Liz Murrall	
Giles Mullins	
Sandra Thompson	
Michael Wells	

[Date]

Department for
Business, Energy
& Industrial Strategy

UK-adopted international accounting standards

Annual Improvements to IFRS® Standards 2018–2020

Amendment to
IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 39AG and, in Appendix D, paragraph D13A are added. Paragraph D1(f) is amended. New text is underlined and deleted text is struck through.

Effective date

...

<u>39AG</u> <u>*Annual Improvements to IFRS Standards 2018–2020*, issued in May 2020, amended paragraph D1(f) and added paragraph D13A. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.</u>

Appendix D
Exemptions from other IFRSs

This appendix is an integral part of the IFRS.

D1 An entity may elect to use one or more of the following exemptions:

...

(f) cumulative translation differences (paragraphs D12–D13A ~~and D13~~);

...

Cumulative translation differences

...

D13A Instead of applying paragraph D12 or paragraph D13, a subsidiary that uses the exemption in paragraph D16(a) may elect, in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in paragraph D16(a).

...

Amendment to IFRS 9 *Financial Instruments*

Paragraph 7.1.9, paragraph 7.2.35 and its heading, and paragraph B3.3.6A are added. Paragraph B3.3.6 is amended. New text is underlined. The requirements in paragraph B3.3.6A have not been amended but have been moved from paragraph B3.3.6.

Chapter 7 Effective date and transition

7.1 Effective date

...

7.1.9 *Annual Improvements to IFRS Standards 2018–2020*, issued in May 2020, added paragraphs 7.2.35 and B3.3.6A and amended paragraph B3.3.6. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

7.2 Transition

...

Transition for Annual Improvements to IFRS Standards

7.2.35 An entity shall apply *Annual Improvements to IFRS Standards 2018–2020* to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

Appendix B
Application Guidance

This appendix is an integral part of the Standard.

...

Recognition and derecognition (Chapter 3)

...

Derecognition of financial liabilities (Section 3.3)

...

B3.3.6 For the purpose of paragraph 3.3.2, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted 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. In determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

B3.3.6A If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

...

Amendment to
IAS 41 *Agriculture*

Paragraph 22 is amended and paragraph 65 is added. New text is underlined and deleted text is struck through.

Recognition and measurement

...

22 An entity does not include any cash flows for financing the assets~~, taxation,~~ or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

...

Effective date and transition

...

65 *Annual Improvements to IFRS Standards 2018–2020*, issued in May 2020, amended paragraph 22. An entity shall apply that amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Department for
Business, Energy
& Industrial Strategy

UK-adopted international accounting standards

Onerous Contracts—
Cost of Fulfilling a Contract
Amendments to IAS 37

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 68A, 94A and 105 are added and paragraph 69 is amended. Paragraph 68 is not amended, but is included for ease of reading. New text is underlined and deleted text is struck through.

Application of the recognition and measurement rules

...

Onerous contracts

...

68 This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

68A The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:

(a) the incremental costs of fulfilling that contract—for example, direct labour and materials; and

(b) an allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

69 Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets ~~dedicated to that~~ used in fulfilling the contract (see IAS 36).

...

Transitional provisions

...

94A *Onerous Contracts—Cost of Fulfilling a Contract*, issued in May 2020, added paragraph 68A and amended paragraph 69. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Effective date

...

105 *Onerous Contracts—Cost of Fulfilling a Contract*, issued in May 2020, added paragraphs 68A and 94A and amended paragraph 69. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Department for
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UK-adopted international accounting standards

Property, Plant and Equipment: Proceeds before Intended Use Amendments to IAS 16

Amendments to IAS 16 *Property, Plant and Equipment*

Paragraphs 17 and 74 are amended; paragraphs 20A, 74A, 80D and 81N are added. The requirements formerly in paragraph 74(d) have not been amended but have been moved to paragraph 74A(a). Deleted text is struck through and new text is underlined.

Measurement at recognition

...

Elements of cost

...

17 Examples of directly attributable costs are:

...

(e) costs of testing whether the asset is functioning properly (ie assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes)~~, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)~~; and

...

...

20A Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2.

...

Disclosure

...

74 The financial statements shall also disclose:

...

(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction; and

(c) the amount of contractual commitments for the acquisition of property, plant and equipment~~; and~~

~~(d)~~ ~~if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss~~.

74A **If not presented separately in the statement of comprehensive income, the financial statements shall also disclose:**

(a) **the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss; and**

(b) **the amounts of proceeds and cost included in profit or loss in accordance with paragraph 20A that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.**

Transitional provisions

...

80D *Property, Plant and Equipment—Proceeds before Intended Use*, issued in May 2020, amended paragraphs 17 and 74 and added paragraphs 20A and 74A. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

Effective date

...

81N *Property, Plant and Equipment—Proceeds before Intended Use*, issued in May 2020, amended paragraphs 17 and 74, and added paragraphs 20A, 74A and 80D. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Department for Business, Energy & Industrial Strategy

UK-adopted international accounting standards

Reference to the Conceptual Framework Amendments to IFRS 3

Amendments to IFRS 3 *Business Combinations*

Paragraph 11 is amended and the footnote to *Framework for the Preparation and Presentation of Financial Statements* in paragraph 11 is deleted. Paragraphs 14, 21, 22 and 23 are amended and paragraphs 21A, 21B, 21C, 23A and 64Q are added. A heading is added above paragraph 21A and the headings below paragraph 21 and above paragraph 22 are amended. New text is underlined and deleted text is struck through. Paragraph 10 is unamended but is included for ease of reference.

The acquisition method

...

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

10 **As of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 11 and 12.**

Recognition conditions

11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the ~~*Framework for the Preparation and Presentation of Financial Statements**~~ <u>*Conceptual Framework for Financial Reporting*</u> at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other IFRSs.

~~*~~ ~~For this Standard, acquirers are required to apply the definitions of an asset and a liability and supporting guidance in the IASC's *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in 2001 rather than the *Conceptual Framework for Financial Reporting* issued in 2018.~~

...

14 Paragraphs B31–B40 provide guidance on recognising intangible assets. Paragraphs ~~22~~<u>21A</u>–28B specify the types of identifiable assets and liabilities that include items for which this IFRS provides limited exceptions to the recognition principle and conditions.

...

Exceptions to the recognition or measurement principles

21 This IFRS provides limited exceptions to its recognition and measurement principles. Paragraphs ~~22~~<u>21A</u>–31A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs ~~22~~<u>21A</u>–31A, which will result in some items being:

(a) recognised either by applying recognition conditions in addition to those in paragraphs 11 and 12 or by applying the requirements of other IFRSs, with results that differ from applying the recognition principle and conditions.

(b) measured at an amount other than their acquisition-date fair values.

~~Exception~~ Exceptions to the recognition principle

Liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21

21A Paragraph 21B applies to liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies* if they were incurred separately rather than assumed in a business combination.

21B The *Conceptual Framework for Financial Reporting* defines a liability as 'a present obligation of the entity to transfer an economic resource as a result of past events'. For a provision or contingent liability that would be within the scope of IAS 37, the acquirer shall apply paragraphs 15–22 of IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21, the acquirer shall apply IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

21C A present obligation identified in accordance with paragraph 21B might meet the definition of a contingent liability set out in paragraph 22(b). If so, paragraph 23 applies to that contingent liability.

Contingent liabilities and contingent assets

22 IAS 37 ~~*Provisions, Contingent Liabilities and Contingent Assets*~~ defines a contingent liability as:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

23 ~~The requirements in IAS 37 do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the~~ The acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to paragraphs 14(b), 23, 27, 29 and 30 of IAS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Paragraph 56 of this IFRS provides guidance on the subsequent accounting for contingent liabilities.

23A IAS 37 defines a contingent asset as 'a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity'. The acquirer shall not recognise a contingent asset at the acquisition date.

...

Effective date and transition

Effective date

...

64Q *Reference to the Conceptual Framework*, issued in May 2020, amended paragraphs 11, 14, 21, 22 and 23 and added paragraphs 21A, 21B, 21C and 23A. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by *Amendments to References to the Conceptual Framework in IFRS Standards*, issued in March 2018.