Endorsement and adoption of narrow-scope amendments issued 2020

Appendix 4: Main comments from UK respondents and actions taken by the IASB

IFRS	Subject	Main comments from UK respondents when the amendments were exposed for public comment	Actions taken by the IASB
Annual improvements to IFRS Standards 2018–2020			
IFRS 1	**Subsidiary as a First-time Adopter**	Most respondents suggested the IASB permit, rather than require (as the IASB had originally proposed), a subsidiary that applies paragraph D16(a) to measure cumulative translation differences 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 cumulative translation differences using the amount reported by the parent.	The amendment was finalised in line with the suggestion made by respondents. A subsidiary can elect 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.
IFRS 9	**Fees in the '10 per cent' Test for Derecognition of Financial Liabilities**	Most respondents agreed with the amendment. 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 (as paragraph AG62 includes the same requirements as paragraph B3.3.6).	The suggestion made by respondents was considered unnecessary because the IASB had not contemplated maintaining IAS 39 (other than for hedge accounting). Also, it observed that only a limited number of entities could still apply IAS 39 and for a limited amount of time due to the effective date of the amendment.
IAS 41	**Taxation in Fair Value Measurements**	All respondents fully agreed with the amendment.	–
Narrow-scope amendments			
IAS 37	**Onerous Contracts—Cost of Fulfilling a Contract**	• A significant majority of 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). • Other respondents suggested that including costs other than the incremental costs of fulfilling a contract would be inconsistent with other requirements in IAS 37 because an	The IASB reaffirmed its position to include in the cost of fulfilling a contract (when assessing whether a contract is onerous) all costs that relate directly to the contract as this provides more useful information. The IASB concluded that the proposed amendments: • Did not conflict with other requirements in IAS 37

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		entity will incur those other costs regardless of whether it fulfils the contract, and given that those are costs of operating the business (nor for 'fulfilling a contract'). In addition, these respondents observed that paragraph 18 of IAS 37 specifies that no provision is recognised for costs that need to be incurred to operate in the future, and paragraph 63 of IAS 37 prohibits recognition of future operating losses. • One telecoms company expressed concerns about the IASB's 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. • Some respondents expressed concerns, about the IASB's 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 two types of costs that relate directly to a contract. • A few suggested the IASB should expand the scope of the project. For example, to harmonise the wording used to describe 'costs' across IFRS Standards or to consider the meaning of 'economic benefits' within the definition of an onerous contract.	and explained its rationale in paragraph BC12. The amendments therefore do not change the requirements in IAS 37 beyond clarifying the costs an entity is required to include in assessing whether a contract is onerous. • Were not significantly costly to apply in practice as entities were likely to already have the information they need to estimate and allocate the costs that relate directly to contracts into which they have entered. The IASB agreed with the suggestions made by respondents and replaced the list of examples of costs that directly relate (or do not relate) to a contract with further guidance that clarified that the costs that relate directly to the contract consist of: (a) the incremental costs of fulfilling that contract, and (b) an allocation of costs that relate directly to fulfilling that and other contracts. The suggestions made by respondents to expand the scope of the project were not taken forward as this would have prolonged the project.
IAS 16	**Proceeds before Intended Use**	• Respondents had mixed views on the proposed amendment. A majority agreed with the objective to reduce diversity in practice when applying the requirements in paragraph 17(e) of IAS 16, but many observed that the proposed solution would lead to more estimations and use of judgement. One respondent from the extractive industry suggested that the IASB should only require the disclosure of material sale proceeds that have been deducted from the cost of goods sold.	• The IASB decided to require an entity to apply IAS 2 in measuring the cost of items produced. In addition, the IASB observed that the judgement involved in measuring the cost of items produced is not substantially different from judgements already required when applying IAS 2 and other IFRS Standards in measuring cost, in particular for assets that take a substantial period of time to get ready for their intended used (e.g. measuring the cost of abnormal amounts of wasted materials or allocating

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		• Many respondents expressed concerns on the lack of guidance to distinguish cost of goods sold from other costs of property, plant and equipment (PPE) and how those costs could be allocated to a specific sale before the associated PPE is ready for its intended use. A few respondents noted that energy and extractive industries find this cost allocation especially challenging as they may be performing activities that involve construction of assets and generation of inventories at the same time. • A few respondents expressed concern about excluding depreciation from the cost of items produced before the asset is available for use and noted that this could result in a unit cost and margin that are not reflective of normal business operations. • A few respondents asked the IASB to clarify or develop requirements on when an asset is available for use as entities have different interpretations in this respect.	costs to joint products, etc). • The IASB reiterated that excluding depreciation from the cost of items produced before the asset is available for use was in line with the requirements in IAS 16 (i.e. as depreciation of an asset begins when it is available for use). • The IASB did not develop further guidance to determine when an asset is available for use as the IASB considered that this was part of a much broader project. • The IASB required the separate disclosure of information about the amounts of 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).
IFRS 3	**Reference to the Conceptual Framework**	• All respondents agreed to remove a reference to the old Conceptual Framework from IFRS 3. • A majority of respondents agreed to add to IFRS 3 an exception to its recognition principle (for liabilities and contingent liabilities within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*) to avoid the recognition of 'day 2 gains or losses'. • Almost all respondents agreed to add to IFRS 3 an explicit statement that an acquirer should not recognise contingent assets acquired in a business combination. • A few respondents made suggestions to: ○ add a more general exception for any situation in which applying the recognition principle would result in 'day 2 gains or losses'; and	• It was determined that extending the exception to any situation in which applying the recognition principle would result in Day 2 losses or gains was beyond the scope of the project. • The IASB reiterated that it had already considered some of the alternative methods suggested by respondents to avoid Day 2 losses or gains, and observed that its rationale for rejecting those methods was already explained in the basis for conclusions of this amendment.

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		○ consider an alternative method to avoid 'day 2 gains or losses'.	