

Project Initiation Plan: *Annual Improvements to IFRS Accounting Standards—Volume II*

Project Type	Endorsement and adoption
Project Scope	Narrow-scope

Purpose

1. This paper sets out the plan to assess whether to adopt for use in the UK¹ the narrow-scope amendments *Annual Improvements to IFRS Accounting Standards—Volume II* (the Amendments) issued by the IASB in July 2024. The Amendments either clarify the wording in IFRS Standards or correct relatively minor unintended consequences, oversights or conflicts between existing requirements of the Standards².
2. The Amendments have an effective date of 1 January 2026, with earlier application permitted (subject to the UKEB endorsement in the UK).
3. The Board actively influenced the development of these Amendments by submitting a [comment letter](#) in December 2023 in response to the IASB’s Exposure Draft (ED) IASB/AI/ED/2023/1 – *Annual Improvements to IFRS Accounting Standards—Volume II*³.
4. The UKEB’s statutory functions mean that it must consider the Amendments against the statutory adoption criteria⁴ before their formal adoption for use in the UK. The Board’s aim would be to ensure adoption is completed in good time to permit UK entities to use the amendments on the IASB mandated effective date of 1 January 2026.

¹ The UK’s statutory requirements for adoption of international accounting standards are set out in [The International Accounting Standards and European Public Limited-Liability Company \(Amendment etc.\) \(EU Exit\) Regulations 2019 no. 685](#) (the Regulations, or SI 2019/685)

² Paragraph 6.11 of the [IASB and IFRS Interpretation Committee Due Process Handbook](#), August 2020

³ IASB/AI/ED/2023/1 – [IFRS Accounting Standards Annual Improvements Volume II](#)

⁴ The statutory adoption criteria are in Regulation 7 of [The International Accounting Standards and European Public Limited-Liability Company \(Amendment etc.\) \(EU Exit\) Regulations 2019 no. 685](#) (the Regulations, or SI 2019/685)

Background

5. The IASB issues amendments to international accounting standards as part of its continuous effort to maintain and improve IFRS Accounting Standards and to support consistent application.
6. The Amendments came from questions submitted by external stakeholders to the IFRS Interpretations Committee. A summary of the Amendments is provided below, Section 2 in DECA provides additional detail.
 - a) Hedge accounting by a first-time adopter (IFRS 1 *First-time Adoption of International Financial Reporting Standards*)
 - i. To add cross-references to paragraph 6.4.1 of IFRS 9 in paragraphs B5–B6 of IFRS 1; and
 - ii. To replace the word ‘conditions’ with ‘qualifying criteria’ in paragraph B6 of IFRS 9.
 - b) Gain or loss on derecognition (IFRS 7 *Financial Instruments: Disclosures*)
 - i. To replace the reference to paragraph 27A of IFRS 7, which no longer exists, with a reference to paragraphs 72–73 of IFRS 13; and
 - ii. To replace the phrase ‘inputs that were not based on observable market data’ with ‘unobservable inputs’.
 - c) Transaction price (IFRS 9 *Financial Instruments*)
 - i. To revise the wording in paragraph 5.1.3 of IFRS 9; and
 - ii. To delete the reference to ‘transaction price’ and the associated references to IFRS 15 from Appendix A.
 - d) Derecognition of lease liabilities (IFRS 9)
 - i. To add a cross-reference to paragraph 3.3.3 of IFRS 9 in paragraph 2.1(b)(ii) of IFRS 9.
 - e) Determination of a ‘de facto agent’ (IFRS 10 *Consolidated Financial Statements*)
 - i. To clarify the requirements in paragraph B74 of IFRS 10.
 - f) Cost method (IAS 7 *Statement of Cash Flows*)
 - i. To replace the term ‘cost method’, which is no longer defined in IFRS Accounting Standards, with ‘at cost’.

7. The Amendments also include two amendments to the illustrative examples and implementation guidance to IFRS 7. These are not included in the mandatory sections of UK-adopted international accounting standards⁵ and therefore do not form part of this endorsement and adoption.
- g) Disclosure of deferred difference between fair value and transaction price (Implementation Guidance accompanying IFRS 7)
 - i. To propose an amendment to paragraph IG14 to improve its consistent with paragraph 28 of IFRS 7 which it illustrates.
 - h) Introduction and credit risk disclosures (Implementation Guidance accompanying IFRS 7)
 - i. To add a statement that the implementation guidance accompanying IFRS 7 does not illustrate all the requirements in IFRS 7 in paragraph IG1 of IFRS 7; and
 - ii. To simplify the wording in paragraph IG20B of IFRS 7.

UKEB project scope

8. The UKEB project scope is limited to endorsement and adoption of six Annual Improvements that relate to mandatory sections of UK-adopted international accounting standards.

Description of the Amendments

9. A brief description of the Amendments is shown in the table below.

Amendments	
Issued for public comment	IASB/AI/ED/2023/1 – <i>Annual Improvements to IFRS Accounting Standards – Volume 11</i> – issued for public comment in September 2023 (comment period ended on 11 December 2023) ⁶ .

⁵ UK adopted international accounting standards only include mandatory pronouncements which are IFRS Standards, IAS Standards, Interpretations and mandatory application guidance. Non-mandatory guidance includes basis for conclusions, dissenting opinions, implementation guidance and illustrative examples, together with the IFRS practice statements. This categorisation is set out in the Introduction to the IASB yearly Bound Volumes.

⁶ IASB/AI/ED/2023/1 – [IFRS Accounting Standards Annual Improvements Volume 11](#)

Amendments	
Title and issue date of final amendments	<i>IFRS Accounting Standards Annual Improvements Volume 11</i> issued on 18 July 2024 ⁷ .
Origin	See Background on page 4 of the ED ⁶ and Annex A of the UKEB Project Initiation Plan (PIP) for influencing the ED ⁸ for further detail.
What has changed?	See Section 2 of DECA
Transition requirements	See Section 2 of DECA

Project Plan

10. The following factors have been considered when developing the project plan.

The Amendments do not introduce new principles or change existing principles

11. The Amendments are limited to clarification of the wording in specific IFRS Accounting Standards or corrections of relatively minor unintended consequences, oversights or conflicts between existing requirements⁹. Therefore, the Amendments are not expected to introduce any new principles or change existing principles in the IFRS Accounting Standards.

Change in practice or a material effect on entities' financial statements is not expected

12. Given the Amendments are narrow scope in nature and merely clarify wording or correct minor oversights, no significant change in practice or material effect on entities' financial statements is expected.

The Amendments have been subject to public consultation

13. The Amendments were issued by the IASB for public comment as an Exposure Draft in September 2023. They were considered by the UKEB, and the Board

⁷ [IFRS Accounting Standards Annual Improvements Volume 11](#)

⁸ [Project Initiation Plan: Annual Improvements to IFRS Accounting Standards – Volume 11](#)

⁹ The IASB and IFRS Interpretations Committee [Due Process Handbook](#), August 2020 – Exposing annual improvements (paragraphs 6.10 to 6.15)

issued a comment letter to the IASB¹⁰. The UK stakeholder feedback to the UKEB during the influencing stage was supportive of the Amendments.

14. Generally, feedback to the IASB from UK and international stakeholders, including the UKEB supported the proposals, though some suggested the amendments in paragraph A6d (Derecognition of lease liabilities (IFRS 9)) would benefit from more extensive amendments and therefore should be a narrow-scope standard setting project.
15. In May 2024 the IASB staff circulated to International Forum of Accounting Standard Setters members a draft of the final Amendments¹¹. The UKEB Secretariat reviewed it on a confidential basis and submitted comments to the IASB staff.
16. The final amendments were published by the IASB in July 2024 and are consistent with those in the ED except for minor rewording to some amendments. A summary of the main changes is included in Annex B of this paper.

Proportionality

17. The UKEB Due Process Handbook, paragraph 3.7¹² notes that “the activities undertaken to achieve the milestones for each project should be proportionate to the significance, urgency, complexity (i.e., nature or scope), size, expected timeline and expected interest or controversy attached to the project”.

Significance/size

18. The Amendments are minor in nature but would lead to changes to five different IFRS Accounting Standards. Therefore they are expected to be relevant to many entities using IFRS Accounting Standards.

Complexity

19. The Amendments are not technically complex. The focus of these amendments is to clarify the wording in an IFRS Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements of the Standards.

Expected timeline/urgency

20. The effective date of the Amendments is annual reporting periods beginning on or after 1 January 2026, with earlier application permitted. The Amendments are minor in nature and can easily be accommodated by preparers as part of their

¹⁰ [UKEB comment letter](#) on IASB/AI/ED/2023/1 – *Annual Improvements to IFRS Accounting Standards – Volume 11*

¹¹ The IASB shares this draft for editorial review in line with the requirements in paragraph 3.32 of the [IFRS Foundation Due Process Handbook](#).

¹² [UKEB Due Process Handbook](#) (December 2022)

annual consolidation packages. Therefore, no particular urgency for the endorsement is indicated.

Expected interest/sensitivity

21. During the UKEB influencing stage UK stakeholder feedback was supportive of the proposals and no significant concerns were identified.

Implication for project plan

22. Based on the considerations described in paragraphs A11–A21, a 'limited' project scope is proposed. The plan proposes public consultation on a Draft Endorsement Criteria Assessment (DECA) and limited outreach to the Accounting Firms and Institutes Advisory Group (AFIAG), Investor Advisory Group (IAG) and Preparer Advisory Group (PAG). No additional outreach is planned.

Research and plan for outreach

23. Desk-based research from the influencing stage and the analysis of the comment letters received by the IASB were used to inform the development of the PIP.
24. Considering the factors outlined above, the Secretariat plans to conduct limited outreach for the development of DECA, in line with the UKEB Due Process Handbook.

Paragraph 6.21 of the [UKEB Due Process Handbook](#):

"As a minimum, Regulation 8 of SI 2019/685 requires the UKEB to consult with a representative range of stakeholders before adopting an international accounting standard. Publication of the DECA on the UKEB website and notifying UK stakeholders is expected to be sufficient in the following situations:

- a) When amendments to international accounting standards are minor and meet the criteria for annual improvements or for narrow-scope amendments."

25. In view of the assessment in paragraphs A11–A22, the Secretariat propose the following outreach after DECA publication:
 - a) announcement of DECA consultation through the usual channels; and
 - b) include information on the DECA as an item for noting with the UKEB PAG, IAG and AFIAG.

Project milestones

26. In line with the proposed proportionate approach, the table below provides a brief description of the work focused on the mandatory milestones listed in paragraph 6.11 of the UKEB Due Process Handbook.

Proposed activity	Due Process Handbook reference
The project was added to UKEB technical work plan .	Handbook 4.30(d)
An education session is not proposed as the Board has been informed about the development of the Amendments. ¹³	Handbook 4.10(b)
Creation of a Project Initiation Plan (this document)	Handbook 6.12–6.16
Desk-based research, including: <ul style="list-style-type: none"> • The IASB’s work on the Amendments (mainly staff papers, ED feedback) and the Basis for Conclusions • Comment letters to the IASB on the ED from UK stakeholders • Previous work done by the UKEB (desk-based research and comment letters on our draft comment letter) • Relevant material produced by other parties, including accounting firms 	Handbook 6.17
Publication of a Draft Endorsement Criteria Assessment (DECA) for public consultation. <ol style="list-style-type: none"> a) Announcement of publication of the DECA for consultation through the usual channels including the UKEB website, UKEB News Alerts for subscribers, and LinkedIn posts. b) The DECA will be issued for comment for 90 days 	Handbook 6.23–6.28
Stakeholder outreach <ul style="list-style-type: none"> • Publish DECA for stakeholder comment on the UKEB website. • Notify UKEB Advisory groups of the DECA publication, as appropriate (ongoing during the DECA comment period). 	Handbook 6.18–6.22

¹³ Education material was included in the [PIP](#) for the influencing project for these Amendments. The Board was informed about the development of the Amendments in [Agenda Paper 9](#) for March 2024 meeting.

Proposed activity	Due Process Handbook reference
<p>Creation of an adoption package including the Final ECA, Adoption Statement, Feedback Statement and Due Process Compliance Statement.</p> <p>Publication of required documents on the UKEB website.</p>	Handbook 6.30–6.48

Resources allocated

27. On the basis of this project plan, the project team consists of one Project Manager with oversight from a Project Director to ensure the project timelines are achievable. The required resources are allowed for in the 2024/25 UKEB plan and budget.
28. In addition, some input from the economics team has been used in developing the contents of the economic impact assessment.

Setting-up an ad-hoc advisory group is not necessary

29. Given the narrow-scope nature of the Amendments and stakeholder feedback received during the influencing stage, it is not considered necessary to set up a separate, ad-hoc advisory group specific for this project.

Project timeline

Endorsement and adoption stage

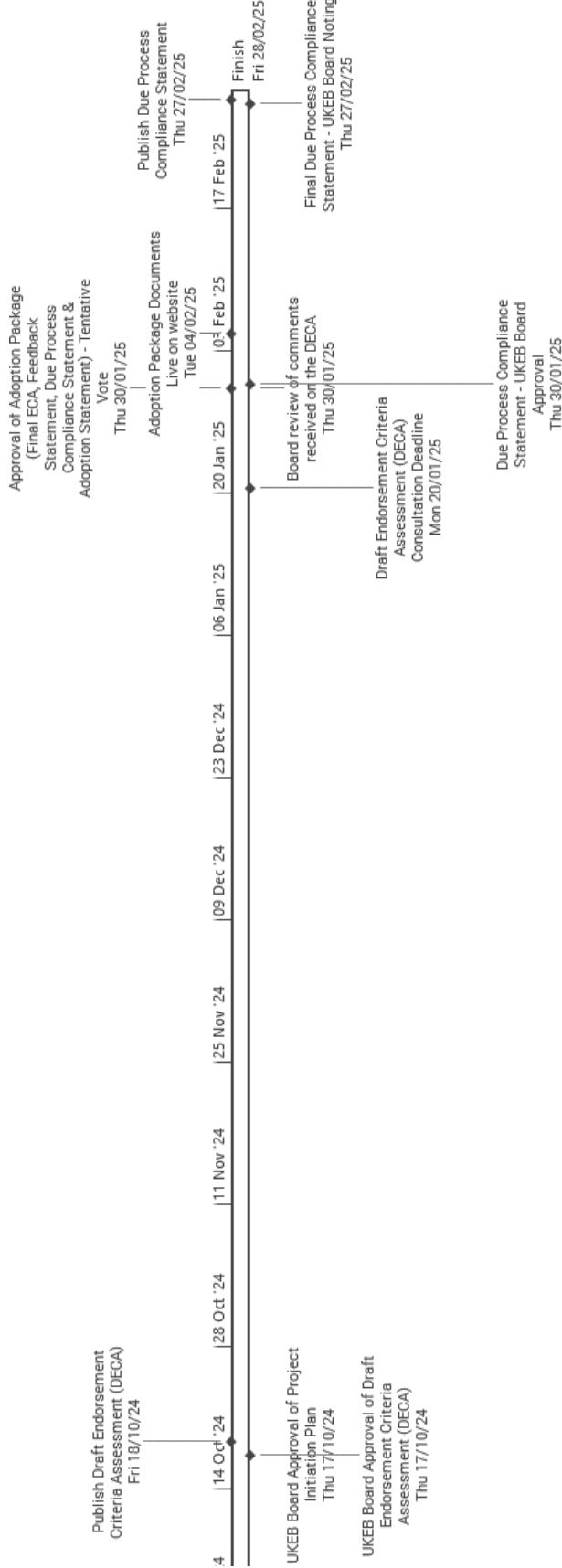
30. The proposed high-level project timeline is as follows:

Date	Milestones
17 October 2024	Presentation of PIP and DECA for approval
DECA consultation period (90 days): 18 October 2024 – 17 January 2025*	
30 January 2025	<p>Board review of comments received on the DECA</p> <p>Consideration of Adoption Package</p>

Date	Milestones
	Board members provide a tentative vote
Early February 2025	Voting form is sent to Board members
Mid-February 2025	Publication of voting outcome and Adoption Package on the UKEB website
27 February 2025	Due Process Compliance Statement for noting
1 January 2026	Effective date of the Amendments (earlier application permitted by the IASB, subject to the UKEB adoption for use in the UK)

***To be confirmed**

Annex A: Proposed timeline



Annex B: Illustration of changes post ED publication

The below table illustrates the changes to the mandatory amendments subsequent to the publication of the ED. This has been prepared based on the IASB's final amendments issued on 18 July 2024.

Proposals in the ED	Stakeholder feedback	Final amendments (The changes are highlighted)
Transaction price (IFRS 9)		
The proposed amendments to IFRS 9 are to delete the reference to the IFRS 15's definition of 'transaction price' in Appendix A of IFRS 9 and revise the wording around the term 'transaction price' in paragraph 5.1.3 of IFRS 9.	Almost all respondents agreed with the proposed amendments.	No change was made to the amendments.
Derecognition of lease liabilities (IFRS 9)		
The proposed amendment to IFRS 9 is to add a cross-reference to paragraph 3.3.3 of IFRS 9 in paragraph 2.1(b)(ii) of IFRS 9.	Most respondents agreed with the proposed amendments. Some respondents suggested the IASB to clarify whether a reduction in lease liability should be treated as: <ul style="list-style-type: none"> a) an extinguishment of a lease liability applying IFRS 9; or b) a lease modification applying IFRS 16. 	No change was made to the amendments.

Proposals in the ED	Stakeholder feedback	Final amendments (The changes are highlighted)
	Consistent with the UKEB's position ¹⁴ , most of the respondents noted this wider issue to be beyond the scope of an annual improvement.	
Gain or loss on derecognition (IFRS 7)		
The proposed amendments to IFRS 7 are to replace the reference to paragraph 27A of IFRS 7, a paragraph that no longer exists, with a reference to paragraphs 72–73 of IFRS 13 <i>Fair Value Measurement</i> , and to replace the phrase 'inputs that were not based on observable market data' with 'unobservable inputs' in paragraph B38 of IFRS 7.	All respondents agreed with the proposed amendments and provided no other comments.	No change was made to the amendments.
Hedge accounting by a first-time adopter (IFRS 1)		
The proposed amendments to IFRS 1 are to replace the word 'conditions' with 'qualifying criteria' in paragraph B6 of IFRS 1; and add cross-references to paragraph 6.4.1 of IFRS 9 in paragraphs B5 and B6 of IFRS 1.	Almost all respondents agreed with the proposed amendments. A national standard setter suggested the IASB to clarify whether a first-time adopter can choose to apply IAS 39 on macro hedge accounting by applying paragraph 6.1.3 of IFRS 9. One AFIAG member raised a similar comment but also noted this is a	No change was made to the amendments.

¹⁴ Paragraph 13 of the [Project Initiation Plan](#) for the Influencing Project for *Annual Improvements to IFRS Accounting Standards—Volume 11*.

Proposals in the ED	Stakeholder feedback	Final amendments (The changes are highlighted)
	minor point (Paragraph 13 of November 2023 AFIAG meeting summary).	
Determination of a 'de facto agent' (IFRS 10)		
<p>The proposed amendments to IFRS 10 are to address the inconsistency between paragraphs B73 and B74 by clarifying the requirements in paragraph B74 so that both paragraphs allow room for judgement on the determination of a 'de facto' agency relationship.</p>	<p>Almost all respondents agreed with the proposed amendments. Consistent with the UKEB's position¹⁵, some respondents identified a wider issue on the determination of a 'de facto agent'. These respondents suggested the IASB to undertake a separate project on this¹⁶.</p>	<p>B74 Such a relationship need not involve a contractual arrangement. A party is a de facto agent when the investor has, or those that direct the activities of the investor have, the ability to direct that party to act on the investor's behalf. <u>A party might also be a de facto agent when those that direct the activities of the investor have the ability to direct that party to act on the investor's behalf.</u> The in these circumstances, the investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee.</p>
Cost method (IAS 7)		
<p>The proposed amendment to IAS 7 is to replace the term 'cost method', which is no longer defined in IFRS</p>	<p>All respondents agreed with the proposed amendments.</p>	<p>No change was made to the amendments.</p>

¹⁵ Please refer to paragraph 13 of the [Project Initiation Plan](#) for the Influencing Project for *Annual Improvements to IFRS Accounting Standards–Volume 11*.

¹⁶ Two respondents also suggested the IASB require prospective application of the proposed amendments.

Proposals in the ED	Stakeholder feedback	Final amendments (The changes are highlighted)
Accounting Standards, with the term 'at cost' in paragraph 37 of IAS 7.		