[DRAFT] Endorsement Criteria Assessment: Annual improvements and narrow-scope amendments *(published in May 2020 with an effective date of 1 January 2022)*

Introduction

Purpose

1. The purpose of this [draft] 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:

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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.

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

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.

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

16. 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.

[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.

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

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

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

This draft 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.
Initial conclusion	Overall, we initially 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.
Initial conclusion	Overall, we initially 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 initially concluded

1 Amendments to IFRS 1—Subsidiary as a First-time Adopter	
	that the May 2020 Amendments to IFRS 1 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 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.
Initial 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 initial 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 initially concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685. **This initial conclusion will be finalised having reviewed the comments received from the consultation.**

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.
Initial conclusion	Overall, we initially 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.
Initial conclusion	Overall, we initially 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 initially 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	Preparers: 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. Users: 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.
Initial 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 initial 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 initially concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685. **This initial conclusion will be finalised having reviewed the comments received from the consultation.**

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.

3 *Amendments to IAS 41—Taxation in Fair Value Measurements*	
Initial conclusion	Overall, we initially conclude that the May 2020 Amendments to IAS 41 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 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.
Initial conclusion	Overall, we initially 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 initially 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.
Initial 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 initial 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 initially concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685. **This initial conclusion will be finalised having reviewed the comments received from the consultation.**

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*—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). • Require, in paragraph 74A(b), the separate disclosure of information about the

I	*Amendments to IAS 16—Proceeds before Intended Use*
	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 initial 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). Clarifying the meaning of 'testing' in paragraph 17 of IAS 16, might help an entity

1	*Amendments to IAS 16—Proceeds before Intended Use*
	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.
Initial conclusion	Overall, we initially 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.
Initial conclusion	Overall, we initially 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 initially 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	Preparers: 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. Users: 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.
Initial 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

I	*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 initial 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 initially concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685. **This initial conclusion will be finalised having reviewed the comments received from the consultation.**

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 initial 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.
Initial conclusion	Overall, we initially 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.
Initial conclusion	Overall, we initially 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 initially 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	Preparers: 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

2	*Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract*
	date of initial application, without restating comparative amounts. Users: Classifying similar contracts in a consistent way, also helps users understand and compare the financial positions of different entities.
Initial 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 initial 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 initially concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685. **This initial conclusion will be finalised having reviewed the comments received from the consultation.**

<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.
Initial conclusion	Overall, we initially 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.
Initial conclusion	Overall, we initially 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 initially 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.

3 Amendments to IFRS 3—Reference to the Conceptual Framework	
Costs and benefits for preparers and users	Preparers: Preparers are likely to benefit from having one version of the *Conceptual 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. Users: The Amendments to IFRS 3 will bring benefits to users as preparers will be able to portray their financial performance more faithfully.
Initial 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 initial 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 initially concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685. **This initial conclusion will be finalised having reviewed the comments received from the consultation.**