Endorsement and adoption of narrow-scope amendments issued 2020

Appendix 3: List of narrow-scope amendments to be considered for adoption

1 *Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract*		
Issued	**Exposed for public comment: December 2018 (comment period ended 15 April 2019)**	**Final Amendment: May 2020**
Origin	Entities had differing views on which costs an entity considers when assessing whether a contract is onerous, in particular when having contracts with customers that were previously within the scope of IAS 11 *Construction Contracts,* and that are now within the scope of IFRS 15 *Revenue from Contracts with Customers.* Entities observed that paragraph 5(g) of IAS 37 requires the application of IAS 37 to assess whether contracts within the scope of IFRS 15 are onerous, as IFRS 15 does not contain specific requirements to address contracts with customers that are, or have become, onerous.	
What has changed?	The 2020 Amendments clarify what costs an entity considers in assessing whether a contract is onerous in IAS 37. The Amendments clarify in paragraph 68A of IAS 37 that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract' which include: (a) incremental costs of fulfilling that contract; and (b) an allocation of other costs that relate directly to fulfilling contracts. The Amendments also address the interaction with the requirements for impaired assets in paragraph 69 of IAS 37 by amending the terminology in this paragraph to clarify that, before an entity establishes a provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets 'used in fulfilling the contract'. Paragraph 69 originally referred to assets 'dedicated to that contract'.	
Transition requirements	The Amendments 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.	
Benefits	The Amendments: • Meet the criteria for narrow-scope amendments (i.e. the scope of the amendments is restricted to clarifying the requirements for identifying onerous contracts and is not adding other requirements, for example to measure onerous contracts). • Reduce diversity in practice and promote consistent application in determining the cost of fulfilling a contract —the amendments apply to all onerous contracts within the scope of IAS 37, and not only to contracts within the scope of IFRS 15.	
Changes	In IAS 37, paragraph 68A is added and paragraph 69 is amended.	

2 Amendments to IAS 16– Proceeds before Intended Use		
Issued	**Exposed for public comment: June 2017 (comment period ended 19 October 2017)**	**Final Amendment: May 2020**
Origin	Before the 2020 Amendments paragraph 17(e) of IAS 16 required the deduction of 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) from the cost of property, plant and equipment (PPE). There was diversity in practice in the application of paragraph 17(e). Some entities deducted only proceeds from selling items produced while testing; others deducted the proceeds of all sales until an asset was in 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: • Clarify the meaning of 'testing' in paragraph 17 of IAS 16. • Prohibit the deduction of any proceeds received from selling 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) from the cost of PPE and require the recognition of such proceeds and related cost, in profit or loss in accordance with applicable Standards (i.e. generally IFRS 15 *Revenue from Contracts with Customers* and IAS 2 *Inventories*). • Require in paragraph 74A(b) 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).	
Transition requirements	The Amendments 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.	
Benefits	The Amendments: • Clarify the meaning of 'testing' which helps an entity determine when an asset is available for use. • The previous requirement (i.e. to offset proceeds against the cost of an item of PPE) reduced the usefulness of financial statements as those proceeds and related cost meet the definition of income and expenses in the *Conceptual Framework* and should be recognised in profit or loss. Therefore, the new requirements provide relevant information, that represents faithfully what it purports to represent. • Reduce diversity in practice in applying the requirements in paragraph 17(e) of IAS 16. This has the potential of making the resulting information more reliable and comparable.	
Changes	In IAS 16, paragraphs 17 and 74 are amended and paragraphs 20A and 74A are added.	

3 Amendments to IFRS 3– Reference to the Conceptual Framework

Issued	Exposed for public comment: May 2019 (comment period ended 27 September 2019)	Final Amendment: May 2020
Origin	When the IASB developed the new revised 2018 *Conceptual Framework*, paragraph 11 of IFRS 3 was not updated to include a reference to the latest *Conceptual Framework.* This is because the definitions of assets and liabilities in the 2018 *Conceptual Framework* are broader than in the 1989 Framework and updating the references could have resulted in additional assets and liabilities being recognised in a business combination. This could also have given rise to 'day 2 gains or losses' when some of the assets and liabilities initially recognised did not qualify for recognition under other applicable IFRS Standards subsequent to the acquisition date. For example, an acquirer might recognise a liability at the acquisition date (by applying the definition of a liability in the 2018 *Conceptual Framework*) that would not be recognised subsequently under IFRIC 21, thereby giving rise to a 'day 2' gain. The IASB analysed the possible unintended consequences and concluded that the problem of 'day 2 gains or losses' was significant for liabilities accounted for after the acquisition date by applying IAS 37 and IFRIC 21 *Levies.* Therefore, to avoid this problem, the IASB decided to add an exception to the recognition principle in IFRS 3.	
What has changed?	The Amendments: • Replace the reference to the 1989 Framework in paragraph 11 of IFRS 3 with a reference to the current version 2018 Conceptual Framework. • Include an exception from for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21, if these are incurred separately, rather than assumed in a business combination in paragraph 21B. The exception requires an acquirer to apply the criteria in IAS 37 or IFRIC 21, respectively, to determine whether a present obligation exists at the acquisition date. The exception refers to both IFRIC 21 and IAS 37, as IFRIC 21 also applies to levies whose timing and amount are certain and so are outside the scope of IAS 37. • Adds 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 principles in IFRS 3 but was not stated explicitly in IFRS 3 itself).	
Transition requirements	The Amendments 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.	

Benefits	• The Amendments meet the criteria for narrow-scope amendments (i.e. these amendments are necessary to improve financial reporting).
	• The added exception avoids:
	    ○ conflicts between IFRS 3 and IAS 37/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/IFRIC 21.
	    ○ recognising 'day 2 gains' (or losses) that do not represent economic gains (or losses), thereby enhancing the reliability and faithful representation of the entity's financial performance.
	• The added clarification that an acquirer should not recognise contingent assets acquired in a business combination promotes consistency in how entities account for a business combination.	

3 Amendments to IFRS 3– Reference to the Conceptual Framework	
Changes	Paragraphs 11, 14, 21,22 and 23 are amended and the footnote to *Framework for the Preparation and Presentation of Financial Statements* in paragraph 11 is deleted. Paragraphs 21A, 21B, 21C, 23A are added.