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Mr Hans Hoogervorst
International Accounting Standards Board
Columbus Building
7 Westferry Circus
London
E14 4HD

Our ref RD/288

19 August 2019

Dear Mr Hoogervorst,

Comment letter on Exposure Draft ED/2019/2 *Annual Improvements to IFRS Standards 2018-2020*

We appreciate the opportunity to comment on the International Accounting Standards Board's ('the Board') Exposure Draft ED/2019/2 *Annual Improvements to IFRS Standards 2018-2020* (the ED), published in May 2019. We have consulted with, and this letter represents the views of, the KPMG network.

We support all of the proposed amendments and believe that they are useful clarifications that will drive consistent application of IFRS Standards.

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Subsidiary as a first-time adopter.
- IFRS 9 *Financial Instruments* – Fees included in the '10 per cent' test for derecognition of financial liabilities.
- Illustrative Examples accompanying IFRS 16 *Leases* – Lease incentives.
- IAS 41 *Agriculture* – Taxation in fair value measurements.

While we agree with the proposed amendments to IFRS 1 – Subsidiary as a first-time adopter, we have specific comments for the Board to consider in finalising the proposed amendments, as set out in the appendix to this letter.

We also note that while we agree with the proposed amendments to Illustrative Example 13 accompanying IFRS 16, we are aware of other practical application issues regarding the accounting for lease incentives under IFRS 16, which the Board may want to consider as a part of its Post Implementation Review of the standard.



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Please contact Reinhard Dotzlaw at +44 020 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix

This appendix contains our detailed response to the proposal to amend IFRS 1 – Subsidiary as a first-time adopter.

IFRS 1 *First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter*

We agree with the proposed amendment to IFRS 1 – Subsidiary as a first time adopter as it offers additional practical relief for a subsidiary that becomes a first-time adopter of IFRS later than its parent. However, we are concerned about the guidance in the proposed Basis for Conclusions paragraph BC5 that discusses application of the proposed amendments by entities that previously applied IFRS 1. In particular, we question how the proposed BC paragraph interacts with paragraph 4A of IFRS 1 that allows entities to repeat the application of IFRS 1 in certain circumstances - i.e., an entity has applied IFRS in a previous reporting period, but that entity's most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRS and the entity decides to apply IFRS 1 again.

It is our understanding that any amendment to IFRS 1 applies only to entities that are in the scope of IFRS 1, i.e. first-time adopters, and would not apply to ongoing IFRS reporting entities that have already applied IFRS 1 in the past unless an entity chooses to apply IFRS 1 again when it re-adopts IFRSs as per IFRS 1.4A. Considering that such an entity would be allowed to apply IFRS 1 again, it should be permitted to take advantage of all optional exemptions in IFRS 1, including those that were introduced by subsequent amendments to IFRS 1.

We believe that such a subsidiary should be permitted but not required to apply the optional exemption introduced by the proposed amendment to IFRS 1.D16. In other words, similar to any other first-time adopter, such a subsidiary may choose to measure cumulative translation differences (CTD) at carrying amounts based on:

- the parent's date of transition (as per the proposed amendments to IFRS 1.D16), or
- the subsidiary's date of transition and either:
 - apply IAS 21 retrospectively to determine the amount of CTD that is recognised as a separate component of equity at the date of transition (based on IFRS 1.D12), or
 - deem the cumulative foreign exchange differences to be zero at the date of transition, and reclassify any amounts recognised in accordance with previous GAAP at that date to retained earnings (based on the existing exemption for CTD in IFRS 1.D13(a)).

We suggest that the Board clarifies or removes the proposed paragraph BC5 and considers its interaction with paragraph 4A of IFRS 1, as the proposed wording may create unnecessary confusion regarding options with respect to measurement of CTD that are available to a subsidiary that adopts IFRS later than its parent and applies IFRS 1 for the second time as permitted in IFRS 1.4A. We also note that the guidance in the Basis for Conclusions is not part of IFRS 1 and, in this particular case, would be more restrictive than the standard itself.