

26 August 2019

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

commentletters@ifrs.org
c.c. Ms Kris Peach - Chair AASB

Dear Sir/Madam,

Re: Exposure Draft 2019/3 *Annual Improvements to IFRS Standards 2018-2020*

On behalf of the Institute of Public Accountants (IPA), I am writing to comment on the Exposure Draft ED 2019/3 *Annual Improvements to IFRS Standards 2018-2020*.

As previously stated, the IPA is sceptical of the use of the “Annual Improvements” process as a methodology for correcting shortcomings in existing accounting standards and would prefer the IASB to explore other avenues including more aggressive use of Interpretations and the use of “omnibus” updates to individual standards. The IPA is concerned that important updates lack visibility under the current “Annual Improvements” mechanism.

Our response to the issues in the exposure draft are as follows:

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

The IPA supports the IASB’s proposal to extend the optional amendment at IFRS1.D16(a) to cumulative transaction differences of a subsidiary, associate or joint venture that becomes a first-time adopter later than its parent/investors. The IPA also supports the ability to early adopt. The IPA believes the amendment will reduce the cost of the first-time adoption of IFRS and is internally consistent.

Issue 2 – IFRS 9 Financial Instruments – Fees included in the 10 per cent test for derecognition of financial liabilities

While the IPA welcomes clarification of the fees included in applying the 10% rule, the IPA is concerned that the proposed clarification is too narrow in restricting fees to those between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

The IPA is aware of renegotiations of debt that includes fees paid in cash or equity instruments such as options to associates or related entities. These amounts are often described as arrangement or facilitation fees. These amounts are often integral to the renegotiation of the debt.

The IPA is concerned such arrangements would fall outside the revised guidance and as such do not reflect the substance of the transaction. The IPA is also concerned in such circumstances where the fee is paid with equity instruments the outcome would be inconsistent with IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*.

Issue 3 – Illustrative Examples accompanying IFRS 16 Leases: Lease Incentives

While the IPA acknowledges Illustrative Example (IE) 13 of IFRS 16 has caused confusion, its removal without the addition of any guidance in relation to lease incentives is a capricious response.

The IPA is aware that the treatment of lease incentives in general and lease incentives for fit-out in particular, have presented preparers and auditors with concern. The failure of the IASB to address these concerns by issuing appropriate guidance on lease incentives when there is a clear need is unsatisfactory.

Issue 4 – IAS 41 Agriculture: Taxation in fair value measurements

The IPA supports the IASB's proposed amendment to IAS 41.22 to remove the reference to 'taxation' when measuring cash flows in applying fair under IAS 41 on the basis on internal consistency in IAS 41 and consistency with IFRS 13 *Fair Value Measurement*.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely



Vicki Stylianou
Executive General Manager, Advocacy & Technical
Institute of Public Accountants

About the IPA

The IPA was formed in 1923 and is recognised in legislation as one of the three professional accounting bodies in Australia. The IPA represents more than 37,000 members and students throughout Australia and in over 80 countries internationally. The IPA Group also comprises of the Institute of Financial Accountants in the United Kingdom and is now the largest SME focused accounting membership body in the world. The IPA is a member of the International Federation of Accountants (IFAC), the Confederation of Asian and Pacific Accountants (CAPA) and the Accounting Professional and Ethical Standards Board (APESB).