



iGAAP in Focus

Financial reporting

IASB issues amendments to IFRS Accounting Standards as part of its annual improvements process

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This *iGAAP in Focus* outlines *Annual Improvements to IFRS Accounting Standards—Volume 11*, published by the International Accounting Standards Board (IASB) in July 2024.

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- The IASB issued the following amendments to IFRS Accounting Standards as part of its annual improvements process:
 - IFRS 1 *First-time Adoption of International Financial Reporting Standards*
 - » Hedge accounting by a first-time adopter
 - IFRS 7 *Financial Instruments: Disclosures*
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 - IFRS 10 *Consolidated Financial Statements*
 - » Determination of a 'de facto agent'
 - IAS 7 *Statement of Cash Flows*
 - » Cost method
- The amendments are effective for annual reporting periods beginning on or after 1 January 2026. Early application of the amendments is permitted. If an entity applies the amendments early, it is required to disclose that fact.

For more information please see the following websites:

www.iasplus.com

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Background

The IASB issued amendments to IFRS Accounting Standards as part of its annual improvements process. These annual improvements are sufficiently minor or narrow in scope that they were packaged in one document, even though the amendments are unrelated. Annual improvements are limited to changes that either clarify the wording in an IFRS Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements of the standards.

The amendments

Hedge accounting by a first-time adopter (amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*)

Stakeholders informed the IASB about potential confusion arising from an inconsistency between the wording of IFRS 1:B6 and the requirements for hedge accounting in IFRS 9 *Financial Instruments*. Before the amendments, IFRS 1:B6 referred to 'conditions' for hedge accounting, whereas Section 6.4 of IFRS 9 sets out 'qualifying criteria' for hedge accounting. IFRS 1:B6 was originally written to be consistent with the requirements for hedge accounting in IAS 39 *Financial Instruments: Recognition and Measurement*.

To address this issue, the IASB amended IFRS 1:B5-B6 to improve the consistency of those paragraphs with the requirements in IFRS 9 and to add cross-references to IFRS 9:6.4.1 to improve the understandability of IFRS 1.

Gain or loss on derecognition (amendments to IFRS 7 *Financial Instruments: Disclosures*)

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* and made consequential amendments to several IFRS Accounting Standards. The amendments included the deletion of IFRS 7:27-27B. However, in IFRS 7:B38, the IASB omitted to delete what would become, after IFRS 13 was issued, an obsolete reference to IFRS 7:27A.

The IASB therefore updated the obsolete cross-reference in IFRS 7:B38 and aligned the wording of this paragraph with the terms used in IFRS 13.

Disclosure of deferred difference between fair value and transaction price (amendments to the Guidance on implementing IFRS 7)

When the IASB issued IFRS 13, it amended IFRS 7:28 to make the wording of that paragraph consistent with the wording and concepts used in IFRS 13. However, the IASB omitted to amend IFRS 7:IG14, which illustrates some of the disclosure requirements in IFRS 7:28. As a result, some of the wording in IFRS 7:IG14 was not consistent with the wording in IFRS 7:28.

To address this issue, the IASB amended IFRS 7:IG14 to make the wording of that paragraph consistent with IFRS 7:28 and improve the internal consistency of the wording in the example in IFRS 7:IG14.

Introduction and credit risk disclosures (amendments to the Guidance on implementing IFRS 7)

Stakeholders informed the IASB about a potential lack of clarity in IFRS 7:IG20C because that paragraph fails to state that the example does not illustrate all the requirements in IFRS 7:35M. In addition, IFRS 7:IG20B—which illustrates the application of the requirements in IFRS 7:35H-35I—stated: 'this example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired.' Stakeholders informed the IASB that this statement might lead readers to expect that IFRS 7:IG20C would also state that it does not illustrate particular requirements in IFRS 7:35M.

To address these issues, the IASB amended IFRS 7:IG1 to add a statement clarifying that the guidance does not necessarily illustrate all the requirements in the referenced paragraphs of IFRS 7. The IASB also amended IFRS 7:IG20B to simplify the explanation of the aspects of the requirements that are not illustrated.

Derecognition of lease liabilities (amendments to IFRS 9)

Stakeholders informed the IASB about a lack of clarity related to how a lessee accounts for the derecognition of a lease liability. Some stakeholders said that when a lease liability has been extinguished in accordance with IFRS 9, it was unclear whether the lessee was required to apply IFRS 9:3.3.3 and recognise any resulting gain or loss in profit or loss or, for example, make a corresponding adjustment to the right-of-use asset recognised in accordance with IFRS 16 *Leases*.

To address this issue, the IASB amended IFRS 9:2.1(b)(ii) to add a cross-reference to IFRS 9:3.3.3. The amendments clarify that, when a lessee has determined that a lease liability has been extinguished in accordance with IFRS 9, the lessee is required to apply IFRS 9:3.3.3 and therefore recognise any resulting gain or loss in profit or loss.

Observation

Some stakeholders asked the IASB to clarify the interaction between IFRS 9 and IFRS 16—specifically, how a lessee distinguishes between a lease modification as defined in IFRS 16 and an extinguishment (or a partial extinguishment) of a lease liability. The IASB concluded that clarifying that interaction is beyond the scope of an annual improvement.

Transaction price (amendments to IFRS 9)

Stakeholders informed the IASB about an inconsistency between IFRS 9:5.1.3 and the requirements in IFRS 15 *Revenue from Contracts with Customers*. An entity applying IFRS 15:105 is required to present any unconditional rights to consideration separately as a receivable. However, a receivable might be measured, at initial recognition, at an amount that differs from the amount of the transaction price recognised as revenue (as illustrated by Example 40 accompanying IFRS 15). The IASB therefore amended IFRS 9:5.1.3 to replace 'their transaction price (as defined in IFRS 15)' with 'the amount determined by applying IFRS 15'.

After the removal of the term 'transaction price' from IFRS 9:5.1.3, IFRS 9 included no remaining uses of that term that relate to the way 'transaction price' is defined in IFRS 15. The IASB therefore decided to delete the reference to 'transaction price' (as defined in IFRS 15) in Appendix A of IFRS 9.

Determination of a 'de facto agent' (amendments to IFRS 10 Consolidated Financial Statements)

Stakeholders informed the IASB that the requirements in IFRS 10:B73-B74 might, in some situations, be contradictory. IFRS 10:B73 refers to 'de facto agents' as parties acting on the investor's behalf and states that the determination of whether other parties are acting as de facto agents requires judgement. However, the second sentence of IFRS 10:B74 includes more conclusive language and states that a party is 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.

To address this issue, the IASB amended IFRS 10:B74 to use less conclusive language and to clarify that the relationship described in IFRS 10:B74 is just one example of a circumstance in which judgement is required to determine whether a party is acting as a de facto agent.

Cost method (amendments to IAS 7 Statement of Cash Flows)

In May 2008, the IASB amended IFRS Accounting Standards by issuing *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. As part of those amendments, the IASB removed the definition of 'cost method' from IFRS Accounting Standards. However, the IASB did not remove a reference to the term 'cost method' from IAS 7:37, which was an oversight.

Therefore, the IASB amended IAS 7:37 to replace the term 'cost method' with 'at cost'.

Effective date and transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2026. Early application of the amendments is permitted. If an entity applies the amendments early, it is required to disclose that fact.

An entity is required to apply the amendments to IFRS 9:2.1(b)(ii) to lease liabilities that are extinguished on or after the beginning of the annual reporting period in which the entity first applies that amendment. No specific transition provisions are provided in respect of the other amendments.

Further information

If you have any questions about the amendments, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

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Key contacts

Global IFRS and Corporate Reporting Leader

Veronica Poole

ifrsglobalofficeuk@deloitte.co.uk

IFRS Centres of Excellence

Americas		
<i>Argentina</i>	Fernando Lattuca	arifrscoe@deloitte.com
<i>Canada</i>	Karen Higgins	ifrsca@deloitte.ca
<i>Mexico</i>	Kevin Nishimura	mx_ifrs_coe@deloittemx.com
<i>United States</i>	Magnus Orrell	iasplus-us@deloitte.com
	Ignacio Perez	iasplus-us@deloitte.com
Asia-Pacific		
<i>Australia</i>	Anna Crawford	ifrs@deloitte.com.au
<i>China</i>	Mateusz Lasik	ifrs@deloitte.com.cn
<i>Japan</i>	Kazuaki Furuuchi	ifrs@tohatsu.co.jp
<i>Singapore</i>	Lin Leng Soh	ifrs-sg@deloitte.com
Europe-Africa		
<i>Belgium</i>	Thomas Carlier	ifrs-belgium@deloitte.com
<i>Denmark</i>	Søren Nielsen	ifrs@deloitte.dk
<i>France</i>	Irène Piquin Gable	ifrs@deloitte.fr
<i>Germany</i>	Jens Berger	ifrs@deloitte.de
<i>Italy</i>	Massimiliano Semprini	ifrs-it@deloitte.it
<i>Luxembourg</i>	Martin Flaunet	ifrs@deloitte.lu
<i>Netherlands</i>	Ralph Ter Hoeven	ifrs@deloitte.nl
<i>South Africa</i>	Nita Ranchod	ifrs@deloitte.co.za
<i>Spain</i>	José Luis Daroca	ifrs@deloitte.es
<i>Sweden</i>	Fredrik Walmeus	seifrs@deloitte.se
<i>Switzerland</i>	Nadine Kusche	ifrsdesk@deloitte.ch
<i>United Kingdom</i>	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk



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