

Comment Letters
IASB
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United Kingdom

Paris, 30 July 2019

Exposure Draft ED/2019/2: Annual Improvements to IFRS Standards 2018-2020

Dear Hans,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board's Exposure Draft (hereafter ED) *Annual Improvements to IFRS Standards 2018-2020*, issued in May 2019.

We agree with 3 proposals made by the Board out of 4.

We would like to draw your attention to the following points:

- Regarding the proposed amendment to Example 13 accompanying IFRS 16, we believe it would be helpful if it were made clearer how such reimbursements for leasehold improvements should be accounted for, rather than simply deleting all references to leasehold improvements.
- While we agree with the proposed amendment to IFRS 9 regarding the "10 per cent" derecognition test, we think it is necessary to amend IAS 39 at the same time for those entities which are not applying IFRS 9 before 2021 as explained in Appendix 2.
- As drafted the proposed amendment to IFRS 1 does not allow entities applying paragraph D16(a) to measure the cumulative translation differences on a retrospective basis or at zero. We believe that the Board should permit these two alternatives.

Our detailed comments on each proposal are set out in the Appendices.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,



Michel Barbet-Massin

Head of Financial Reporting Technical Support

Appendix 1

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

We agree with the proposed amendment to extend the scope of paragraph D16(a) to cumulative translation differences and allow a subsidiary that becomes a first-time adopter after its parent to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs.

We share the Board's view that this amendment will reduce costs for first-time adopters without impairing the relevance of information provided by the financial statements.

We also agree with the Board's decision not to extend that relief to other components of equity or to subsidiaries that previously applied IFRS 1.

Nevertheless, we understand that the Board's intent was to allow entities applying paragraph D16(a) to measure cumulative translation differences using the amounts reported by the parent, rather than to make it mandatory. We believe that entities applying paragraph D16(a) should be able to measure their cumulative translation differences either:

- At an amount corresponding to a retrospective application of IAS 21 as described in paragraph D12, or
- At zero according to the first-time application exemption in paragraph D13, or
- Using the amounts reported by the parent.

We believe the Board should modify the proposed amendment to allow entities to choose amongst the three options above for the measurement of the cumulative translation differences at transition date.

Appendix 2

Proposed amendment to IFRS 9 *Financial Instruments* – Fees included in the ‘10 per cent’ test for derecognition of financial liabilities

We agree with the proposed amendment of IFRS 9 to clarify that the fees that an entity includes in the “10 per cent” test are only those paid or received between the borrower and the lender.

We also agree that this amendment should apply prospectively to financial liabilities that are modified or exchanged on or after the beginning of the first annual period in which the entity applies the amendment.

We note that the Board decided not to similarly amend paragraph AG62 of IAS 39. We do not understand the rationale for not amending IAS 39 as well. Amending IAS 39 at the same time does not create additional due process steps and could be dealt with as consequential amendments.

Moreover, entities that are not required to apply IFRS 9 before 2021 and that include fees other than those paid or received between the borrower and the lender when applying paragraph AG62 will have to apply this amendment retrospectively when transitioning to IFRS 9. Indeed, IFRS 9 transitional provisions require retrospective application of the provisions regarding debt modifications or exchanges.

Considering the Board’s rationale in BC3 for a prospective application of the amendment, we believe that applying it retrospectively in the context of an IFRS 9 transition would be an unintended consequence of not amending IAS 39.

Appendix 3

Proposed amendment to Illustrative Examples accompanying IFRS 16 *Leases* – Lease incentives

We disagree with the Board's proposal to remove from Example 13 any reference to leasehold improvements reimbursed by the lessor.

We acknowledge that had the initial version of Example 13 not included any reference to leasehold improvements, no question would probably have arisen as to how to account for reimbursements. However, we consider that modifying Example 13 as proposed, in the light of the original drafting of Example 13 and explanation in the Basis for Conclusions to the Annual Improvement, simply raises a new question, as it remains unclear how, in the Board's view, reimbursements of leasehold improvements by the lessor should be accounted for.

We believe that if leasehold improvements are owned and controlled by the lessee, they shall be accounted for by the lessee at cost as PPE. If according to the terms of the lease contract the lessor reimburses all or part of the cost of the leasehold improvements made by the lessee, this payment is a lease incentive as it is a payment *“made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee”* (IFRS 16 Appendix A).

By deleting all references to leasehold improvements, the Board leaves IFRS users with a former version of Example 13 stating that reimbursement of leasehold improvements by the lessor is not a lease incentive and with new Basis for Conclusions not really contradicting that statement. We consider that this situation is not satisfactory.

We therefore encourage the Board to develop guidance to help constituents to assess the extent to which any payment made by the lessor to the lessee is a lease incentive to be recognised as a reduction of the carrying amount of the right-of-use asset. That guidance, whatever its form, should specifically address the various cases of reimbursement of leasehold improvements.

Appendix 4

Proposed amendment to IAS 41 *Agriculture* – Taxation in fair value measurements

We agree with the proposed amendment to remove the requirement in paragraph 22 of IAS 41 to exclude tax cash flows when measuring fair value.

This amendment will restore consistency between the requirements regarding the discount rate, that can be determined on a pre-tax or post-tax basis, and those relating to the cash flows, that will either exclude or include tax cash flows, depending on the choice made regarding the discount rate.

We also agree with the proposal to apply this amendment prospectively.