

IASB® meeting

Project	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)		
Paper topic	Feedback Analysis—Other matters		
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Introduction

1. As discussed in Agenda Paper 12A for this meeting, this paper includes our analysis of comments received on the [Exposure Draft](#) *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* related to the scope of the proposed amendments, the proposed transition requirements and other matters raised by respondents. The paper also includes our recommendations for the International Accounting Standards Board (Board).
2. The analysis and recommendations in this paper take into account feedback from members of the IFRS Interpretations Committee (Committee). Appendix D includes a summary and analysis of that feedback.

Structure of the paper

3. This paper includes:
 - (a) scope of the proposed amendments (see paragraphs 5–19 of this paper);
 - (b) transition requirements (see paragraphs 20–37 of this paper);
 - (c) other matters (see paragraph 38 of this paper); and
 - (d) summary of staff recommendations (see paragraph 39 of this paper).

4. There are four appendices to this paper:
 - (a) Appendix A—Analysis of other matters;
 - (b) Appendix B—Other transactions in the scope of the proposed amendments;
 - (c) Appendix C—Extracts from IFRS Standards; and
 - (d) Appendix D—Summary and analysis of feedback from Committee members.

Scope of the proposed amendments

Board's proposals and rationale

5. The proposed amendments apply to any transaction—other than a business combination—that:
 - (a) results in the recognition of an asset and liability and, at the time of the transaction, affects neither accounting profit nor taxable profit; and
 - (b) gives rise to equal amounts of taxable and deductible temporary differences.
6. Paragraphs BC1–BC4 of the Exposure Draft explain the background to the proposed amendments. These paragraphs explain that the Board specifically considered leases and decommissioning obligations when developing the proposed amendments. However, the Board was aware that its conclusions would also apply to any transaction that meets the criteria in paragraph 5 above, which it viewed as appropriate. Accordingly, the Board did not limit the scope of the proposed amendments to only leases and decommissioning obligations.

Summary of respondents' concerns

7. Some respondents expressed concerns about the scope of the proposed amendments. These respondents said:
 - (a) *the scope is too broad and thus might capture transactions not considered by the Board*—these respondents suggested limiting the scope of the amendments so that they would apply only to leases and decommissioning obligations. These respondents said the Board has not considered the effect of the proposed

amendments on other transactions and there is a risk of unintended consequences. Some of these respondents provided examples of transactions that might be in the scope of the proposed amendments.¹ A few respondents suggested limiting the scope only to leases—they said this would avoid complexities associated with applying the amendments to decommissioning obligations.

- (b) *the scope may not capture some transactions that it should*—these respondents said the proposed amendments would not capture transactions that give rise to an asset and liability but not to equal and offsetting temporary differences. Paragraph 12 discusses some such examples.
- (c) *it is unclear whether some transactions are within the scope of the proposed amendments*: these respondents said it is unclear whether the proposed amendments would apply to (i) transactions that give rise to multiple assets and liabilities; and (ii) sale and leaseback transactions.

8. See paragraphs 37–38 of Agenda Paper 12D for more details.

Staff analysis

The scope is too broad

- 9. The objective of the proposed amendments was to narrow the scope of the recognition exemption so that it would not apply when it is not needed. Although the Board specifically considered leases and decommissioning obligations when developing the proposed amendments, the Board did not limit their application to only those transactions. This is because the principle underlying the proposed amendments—that the recognition exemption is unnecessary for transactions which give rise to equal and offsetting temporary differences—is applicable regardless of the nature of the transaction.
- 10. Some respondents provided examples of other transactions that might be within the scope of the proposed amendments, but did not explain why the proposals should not apply to such transactions. Appendix B includes our analysis of some of these

¹ See paragraph 38 of Agenda Paper 12D for examples provided by respondents.

transactions. Although we agree with respondents that the proposed amendments could apply to those transactions, we see no reason that they should not. Further, we think recognising deferred tax on such transactions would be less complex and costly than applying the recognition exemption. In our view the amendments should therefore apply to any transaction that, on initial recognition, gives rise to equal and offsetting temporary differences.

11. We also note that our recommendation to remove the capping proposal (see Agenda Paper 12B) would address respondents' concerns about the complexity of applying the proposed amendments, including with respect to decommissioning obligations.

The scope may not capture some transactions

12. Respondents provided examples of transactions that might result in the recognition of an asset and liability of equal amounts, but that would not be in the scope of the proposed amendments because they do not give rise to equal and offsetting temporary differences. These examples include:
- (a) leases for which payments are only partially deductible for tax purposes—for these leases, if tax deductions are attributable to the lease liability, the tax base of the lease asset would be zero but the tax base of the lease liability would not be zero; and
 - (b) recognition of a deductible asset and a corresponding non-taxable deferred income as part of a government grant—the tax base of the asset would equal its carrying amount, but the tax base of the liability would be zero applying paragraph 8 of IAS 12.²
13. In these examples, temporary differences related to the asset and liability would not be equal because the asset and liability have different tax bases even though they have equal carrying amounts on initial recognition.
14. In our view, the recognition exemption should continue to apply to transactions that do not give rise to equal and offsetting temporary differences. For such transactions, the principle underlying the proposed amendments (see paragraph 9 above) does not

² Paragraph 8 of IAS 12 states 'in the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.'

apply—these transactions are similar to other transactions to which the recognition exemption applies, for example the acquisition of a non-deductible asset.

15. We considered whether the amendments should apply *to the extent* equal temporary differences arise on initial recognition of a transaction—for example, temporary differences arising on partially-deductible leases would be equal to some extent. However, this would require entities to partially apply the recognition exemption, thereby resulting in complexities similar to those arising from the capping proposal (see paragraph 15(a) of Agenda Paper 12B). We therefore continue to support the proposal that the amendments should apply only when equal and offsetting temporary differences arise on initial recognition.

Clarity regarding the scope

Transactions that give rise to multiple assets and liabilities

16. Paragraph 22A of the Exposure Draft specifies that the capping proposal applies to transactions that lead to the initial recognition of ‘an asset and a liability’. We acknowledge that the wording of that paragraph might be read to imply that the amendments would apply only to transactions that result in the recognition of a single asset and liability.³ However, if the Board agrees with our recommendation to remove the capping proposal, this paragraph would not be included in the final amendments.
17. Paragraphs 15 and 24 of IAS 12 (amended as proposed) would refer to transactions that ‘give rise to equal amounts of taxable and deductible temporary differences’. In our view, this would capture transactions involving multiple assets and liabilities if those transactions give rise to equal and offsetting temporary differences on initial recognition.

Sale and leaseback transactions

18. The recognition exemption generally does not apply to sale and leaseback transactions. This is because such transactions generally result in the recognition of a

³ Paragraph 22A of the Exposure Draft states ‘a transaction that is not a business combination may lead to the initial recognition of an asset and a liability and, at the time of the transaction, affect neither accounting profit nor taxable profit (tax loss). Equal amounts of taxable and deductible temporary differences may arise from the initial recognition of that asset and liability.’

gain or loss and, accordingly, affect accounting profit or taxable profit. We think further clarification is unnecessary.

Staff recommendation

19. Based on our analysis above in paragraphs 9–18, we recommend that the Board require entities to apply the amendments to transactions that, on initial recognition, gives rise to equal amounts of taxable and deductible temporary differences.

Transition requirements

Board's proposals and rationale

20. The Board proposed requiring entities to apply the proposed amendments retrospectively, but to provide relief with respect to the assessment of the recoverability of deferred tax assets. The transition relief would permit an entity to assess recoverability only at the beginning of the earliest comparative period presented. Paragraphs BC33–BC37 of the Exposure Draft explain the Board's rationale. In particular, the Board observed that requiring entities to assess whether the recoverability requirement would have been met on initial recognition of each transaction within the scope of the proposed amendments could be impracticable or result in undue costs. The transition relief would also be available to first-time adopters.

Summary of respondents' concerns

21. Many respondents did not comment on the proposed transition requirements. A few explicitly agreed with the proposed transition requirements, whilst a few expressed the following concerns:
 - (a) *different outcomes because of the transition relief*: a few respondents said the proposed transition requirements could lead to different accounting outcomes for economically similar situations. An entity would assess recoverability at different points in time depending on whether it applies the transition relief, and that could affect the extent to which it recognises deferred tax.

- (b) *interaction with the transition requirements in IFRS 16 Leases*: a few respondents said it is unclear how the proposed transition requirements would interact with some of the transition requirements in IFRS 16 (paragraph 24 below provides further information).
 - (c) *alternative transition requirements*: one respondent suggested permitting entities to recognise and measure deferred tax based on the temporary differences determined at the beginning of the earliest comparative period presented.
 - (d) *restatement of comparative information*: a few respondents said calculating deferred tax for the earliest comparative period presented could be challenging and result in undue costs. These respondents suggested requiring or permitting entities to apply the proposed amendments retrospectively with the cumulative effect recognised at the date of initial application of the proposed amendments (ie without restating comparative information).
22. See paragraphs 39–40 of Agenda Paper 12D for more details.

Staff analysis

Different outcomes because of the transition relief

23. If the Board agree with our recommendation to remove the capping proposal, the transition relief proposed would no longer be necessary—as explained in paragraph 26(a) of Agenda Paper 12B, entities would no longer be required to assess recoverability on initial recognition of each transaction to determine the extent to which a deferred tax liability can be recognised. Accordingly, we recommend that the Board no longer provide the transition relief—both for entities already applying IFRS Standards and for first-time adopters.

Entities already applying IFRS Standards

[Interaction with the transition requirements in IFRS 16](#)

24. Paragraph C5 of IFRS 16 requires an entity to apply the Standard either:
- (a) retrospectively to each prior period presented applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (fully retrospective); or

- (b) retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application applying paragraphs C7–C13 of IFRS 16 and without restating comparative information (modified retrospective).⁴
25. When developing the proposed amendments, the Board considered it unnecessary to provide specific requirements addressing the interaction between the proposed transition requirements and those in IFRS 16. Both the proposed amendments and IFRS 16 require retrospective application—retrospectively applying the proposed amendments and IFRS 16 would mean that the recognition exemption would not have applied to equal and offsetting temporary differences that arose at the commencement date of the lease. Consequently, entities would generally recognise deferred tax for the temporary differences that exist at the date of initial application of the amendments.
26. Nonetheless, we acknowledge it may be unclear how an entity would apply the amendments if it had applied the modified retrospective approach in IFRS 16. In that case, should an entity consider whether equal and offsetting temporary differences would have arisen:
- (a) at the commencement date of the lease, because the amendments refer to equal amounts of taxable and deductible temporary differences ‘at the time of the transaction’; or
- (b) when an entity recognises and measures the lease asset and lease liability at the date of initial application of IFRS 16, because the entity would recognise lease assets and liabilities for the first time at that date for leases that had been classified as operating leases?
27. Applying the modified retrospective approach could result in unequal temporary differences on the date of initial application of IFRS 16—this is because the carrying amounts of the lease asset and lease liability at that date could be different (see paragraph C8 of IFRS 16 in Appendix C to this paper). If an entity considers whether equal and offsetting temporary differences exist at the date of initial application of IFRS 16, it might conclude that the amendments would not apply. This would be

⁴ Appendix B to this paper reproduces paragraph C5 and paragraphs C7–C8 of IFRS 16 for ease of reference.

inconsistent with what the Board intended. The following paragraphs consider whether alternative transition requirements could address this concern.

Alternative transition requirements

28. We considered respondents' suggestion that the Board could alternatively require entities to recognise and measure deferred tax based on temporary differences at the beginning of the earliest comparative period presented, with the cumulative effect recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.
29. We think requiring entities to apply this approach for leases would address concerns about the interaction with the transition requirements in IFRS 16. Further, we think requiring this approach for both leases and decommissioning obligations would avoid the need for entities to retrospectively assess whether those transactions gave rise to equal and offsetting temporary differences on initial recognition (which could be several years ago). In our view, such a transition approach would therefore make the amendments easier and less costly to apply, while still achieving their objective.
30. The transition requirements described above could result in an entity recognising deferred tax for some leases or decommissioning obligations that might otherwise be outside the scope of the proposed amendments (for example, a partially deductible lease). However, in our view the expected benefits of applying these transition requirements to all leases and decommissioning obligations would outweigh the cost of requiring entities to assess whether each individual lease and decommissioning obligation gave rise to equal and offsetting temporary differences on initial recognition. We also note that, applying this approach, the cumulative effect of recognising deferred tax would be recognised in retained earnings. This would therefore avoid the outcome the recognition exemption was designed to prevent.⁵
31. As discussed in paragraphs 9–11 of this paper, the amendments would also apply to transactions other than leases and decommissioning obligations. Identifying whether such transactions might be in the scope of the amendments on a retrospective basis could also be costly and complex. In our view, the costs of requiring entities to apply

⁵ See paragraph 15–16 of Agenda Paper 12A.

the amendments retrospectively to other transactions might not outweigh the benefits of doing so. Therefore, we recommend that the Board require entities to apply the amendments prospectively to transactions other than leases and decommissioning obligations (ie only to transactions that occur on or after the beginning of the earliest comparative period presented).

Restatement of comparative information

32. In our view, the expected benefits of restating comparative information would outweigh the costs of providing that information. Restating comparative information would provide useful information to users of financial statements, particularly for entities that do not currently recognise deferred tax for leases and decommissioning obligations. We note that our recommendation to remove the capping proposal and to simplify the transition requirements would reduce the costs of applying the amendments and restating comparative information.

First-time adopters

33. No respondents specifically commented on transition requirements for first-time adopters. Nonetheless, in the light of our analysis in paragraphs 28–31 above, we assessed whether the Board should provide specific transition requirements for first-time adopters. In doing so, we considered the exemptions from retrospective application already provided by IFRS 1 *First-time Adoption of International Financial Reporting Standards* related to leases and decommissioning obligations, namely the exemptions in:
- (a) paragraph D9B of IFRS 1, which allows first-time adopters to measure lease assets and lease liabilities at the date of transition to IFRSs in a similar way to entities transitioning to IFRS 16 applying the modified retrospective approach; and
 - (b) paragraph D21 of IFRS 1, which provides an exemption from retrospective application of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and allows an alternative measurement of

decommissioning costs capitalised as part of an item of property, plant and equipment.⁶

34. Applying these exemptions, the related asset and liability that a first-time adopter recognises at its date of transition to IFRSs might not be equal. Accordingly, we think concerns similar to those discussed in paragraphs 25–27 also apply to first-time adopters for both leases and decommissioning obligations—that is, it might be unclear how to assess whether equal and offsetting temporary differences arise and, thus, whether the amendments would apply.
35. Therefore, similar to our recommendation for entities already applying IFRS Standards, we recommend that the Board require first-time adopters to recognise deferred tax for all temporary differences related to leases and decommissioning obligations existing at the date of transition to IFRSs. Our recommendation would avoid the need for entities to retrospectively assess whether those transactions gave rise to equal and offsetting temporary differences on initial recognition (which could be several years ago) thereby making the amendments easier and less costly to apply.
36. We do not recommend an exemption for transactions other than leases and decommissioning obligations that are within the scope of the proposed amendments. IFRS 1 does not include any exception to, or exemption from, retrospective application of the requirements in IAS 12. Therefore, first-time adopters are already required to determine whether the recognition exemption would have applied to those transactions on a retrospective basis—in our view, the proposed amendments would not significantly add to the costs of doing so.

Staff recommendation

37. Based on our analysis above in paragraphs 23–36, we recommend that the Board:
 - (a) require entities already applying IFRS Standards to apply the amendments for the first time by:
 - (i) recognising deferred tax for all temporary differences related to leases and decommissioning obligations at the beginning of the earliest

⁶ Appendix C for this paper reproduces paragraphs D9B and D21 of IFRS 1 for ease of reference.

comparative period presented, with the cumulative effect recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date; and

- (ii) applying the amendments prospectively to transactions other than leases and decommissioning obligations (ie only to such transactions that occur on or after the beginning of the earliest comparative period presented); and
- (b) require first-time adopters to recognise deferred tax for all temporary differences related to leases and decommissioning obligations existing at the date of transition to IFRSs, and provide no other requirements for first-time adopters.

Other matters

38. Appendix A to this paper sets out our analysis of other matters raised by respondents, for which we recommend no changes to the proposed amendments.

Summary of staff recommendations

39. We recommend that the Board:
- (a) require entities to apply the amendments to transactions that give rise to equal amounts of taxable and deductible temporary differences;
 - (b) require entities already applying IFRS Standards to apply the amendments for the first time by:
 - (i) recognising deferred tax for all temporary differences related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with the cumulative effect recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date; and
 - (ii) applying the amendments prospectively to transactions other than leases and decommissioning obligations (ie only to such transactions

that occur on or after the beginning of the earliest comparative period presented); and

- (c) require first-time adopters to recognise deferred tax for all temporary differences related to leases and decommissioning obligations existing at the date of transition to IFRSs, and provide no other requirements for first-time adopters.

Question for the Board

Does the Board agree with the recommendations set out in paragraph 39 of this paper?

Appendix A—Analysis of other matters

A1. The following table summarises other matters raised by respondents along with our analysis and recommendation on those matters.

Matter	Staff analysis and recommendation
<p><i>1. Disclosure of unrecognised deferred tax liability</i></p> <p>One respondent suggested requiring entities to disclose information to help users of financial statements understand the amount and nature of any unrecognised deferred tax liabilities that would result from the capping proposal.</p>	<p><i>We recommend no change.</i></p> <p>This suggestion would no longer be relevant if the Board agrees with our recommendation to remove the capping proposal.</p>
<p><i>2. Practical expedient for portfolio of leases</i></p> <p>One respondent suggested providing practical expedients, such as allowing an entity to apply the proposed amendments to a portfolio of leases rather than to each individual lease. In its view, this could help reduce the cost of applying the amendment.</p>	<p><i>We recommend no change.</i></p> <p>We understand this suggestion is intended to alleviate the costs of assessing whether the recoverability requirement is met by allowing such assessment to be made for a portfolio of leases. If the Board agrees with our recommendation to remove the capping proposal, providing such a practical expedient would be unnecessary. This is because entities would no longer be required to assess the recoverability requirement on initial recognition of a lease to determine the extent to which it can recognise a deferred tax liability.</p>
<p><i>3. Wording of paragraphs in IAS 12</i></p> <p>A few respondents said paragraphs 15, 22 and 24 of IAS 12 refer to initial recognition of an asset <i>or</i> a liability, rather than an asset <i>and</i> a liability. In their view, referring to an asset <i>and</i> a liability in paragraph 22A of the Exposure Draft would introduce inconsistencies within those paragraphs.</p>	<p><i>We recommend no change.</i></p> <p>We disagree that referring to an asset <i>and</i> a liability in the amendments would introduce inconsistencies in IAS 12. Nonetheless, if the Board agrees with our recommendation to remove the capping proposal, paragraph 22A of the Exposure Draft would no longer be included in the final amendments.</p>
<p><i>4. Inconsistent treatment for assets acquired with financing</i></p> <p>One respondent said the proposed amendments would not apply to the acquisition of an asset financed by a loan—this could result in</p>	<p><i>We recommend no change.</i></p> <p>We understand that, in most situations in which an entity acquires an asset financed by a loan, tax deductions relate to the consumption of the asset and not to the repayment of the loan. Such</p>

Matter	Staff analysis and recommendation
<p>inconsistent treatment of two economically-similar transactions.</p>	<p>situations would be economically similar to, and result in the same deferred tax accounting as, leases for which tax deductions are attributable to the lease asset. Such situations are not economically similar to leases for which tax deductions are attributable to the lease liability and, therefore, might appropriately result in different deferred tax accounting.</p>
<p><i>5. Expedite finalisation</i></p> <p>A few respondents suggested finalising the proposed amendments as quickly as possible to allow entities to apply the amendments as close to the adoption of IFRS 16 as practicable.</p>	<p><i>We recommend no change.</i></p> <p>The Board issued the Exposure Draft after the effective date of IFRS 16—it was therefore already aware that any amendments to IAS 12 could not be issued in time to apply them together with entities’ first application of IFRS 16. Nonetheless, if the Board decides to finalise the amendments, we would aim to issue amendments as soon as practicable.</p>
<p><i>6. Drafting suggestions</i></p> <p>Some respondents suggested drafting improvements.</p>	<p><i>We will consider during drafting.</i></p> <p>We will consider drafting suggestions when drafting any final amendments.</p>

Appendix B—Other transactions in the scope of the proposed amendments

- B1. This appendix analyses two transactions—other than leases and decommissioning obligations—that respondents said could be in the scope of the proposed amendments. We analysed only those transactions for which respondents provided enough information to determine whether temporary differences arise on initial recognition.
- B2. We identified two such transactions:
- (a) applying IFRS 2 *Share-based Payment*, an entity might recognise a cash-settled share-based payment liability and capitalise the cost of the services as part of the cost of a tangible or intangible asset. The entity receives tax deductions only when cash settlement occurs.
 - (b) applying IAS 23 *Borrowing Costs*, an entity might capitalise borrowing costs as part of the cost of a qualifying asset and recognise a liability to pay for those costs. The entity receives tax deductions only when payments are made.
- B3. Assuming attribution of the tax deductions to the liability, these transactions would give rise to taxable and deductible temporary differences related to the asset and liability on initial recognition. As for leases and decommissioning obligations, these temporary differences would be equal and offsetting.⁷ Accordingly, the proposed amendments would apply to these transactions and deferred tax would be recognised for the related temporary differences.
- B4. We continue to see no reason why the entity should not recognise deferred tax for such transactions—similar to leases and decommissioning obligations, the recognition exemption is, in our view, unnecessary for such transactions. Further, recognising deferred tax for these temporary differences would be:
- (a) consistent with the general principles in IAS 12 to require recognition of deferred tax for all temporary differences; and
 - (b) less complex and costly than applying the recognition exemption—ie it would avoid the need to track separately the related temporary differences.

⁷ If an entity receives no tax deductions (or only partial deductions) for cash-settled share-based payments or borrowing costs payments, equal and offsetting temporary differences would not arise (for reasons similar to those explained in paragraph 12 of this paper).

Appendix C—Extracts from IFRS Standards

C1. We reproduce below paragraphs C5 and C7–C8 of Appendix C to IFRS 16 for ease of reference:

C5 A lessee shall apply this Standard to its leases either:

- (a) retrospectively to each prior reporting period presented applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- (b) retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application in accordance with paragraphs C7–C13.

...

C7 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall not restate comparative information. Instead, the lessee shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

Leases previously classified as operating leases

C8 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall:

- (a) recognise a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
- (b) recognise a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

- i. its carrying amount as if the Standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application; or
 - ii. an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.
- (c) apply IAS 36 *Impairment of Assets* to right-of-use assets at the date of initial application, unless the lessee applies the practical expedient in paragraph C10(b).

C2. We reproduce below paragraphs D9B and D21 of Appendix D to IFRS 1 for ease of reference:

D9B When a first-time adopter that is a lessee recognises lease liabilities and right-of-use assets, it may apply the following approach to all of its leases (subject to the practical expedients described in paragraph D9D):

- (a) measure a lease liability at the date of transition to IFRSs. A lessee following this approach shall measure that lease liability at the present value of the remaining lease payments (see paragraph D9E), discounted using the lessee's incremental borrowing rate (see paragraph D9E) at the date of transition to IFRSs.
- (b) measure a right-of-use asset at the date of transition to IFRSs. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:
 - i. its carrying amount as if IFRS 16 had been applied since the commencement date of the lease (see paragraph D9E), but discounted using the lessee's incremental borrowing rate at the date of transition to IFRSs; or
 - ii. an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments

relating to that lease recognised in the statement of financial position immediately before the date of transition to IFRSs.

- (c) apply IAS 36 to right-of-use assets at the date of transition to IFRSs.

...

D21 IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRSs. If a first-time adopter uses this exemption, it shall:

- (a) measure the liability as at the date of transition to IFRSs in accordance with IAS 37;
- (b) to the extent that the liability is within the scope of IFRIC 1, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
- (c) calculate the accumulated depreciation on that amount, as at the date of transition to IFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with IFRSs.

Appendix D—Summary and analysis of feedback from Committee members

Background

D1. In September 2020, we presented to the Committee our analysis and preliminary recommendations on how to address the matters raised in the feedback on the Exposure Draft. The following paragraphs include a summary of Committee members’ comments on the topics covered in this paper and our analysis of these comments.

Scope of the proposed amendments

Summary of comments

D2. Committee members either agreed with our recommendations on the scope of the proposed amendments or did not comment.

Transition requirements

Summary of comments

D3. Committee members either supported our recommendations on transition or did not comment. One Committee member said our recommendations are reasonable and would significantly ease transition for leases and decommissioning obligations. Prospective application for transactions other than leases and decommissioning obligations would also aid transition, because it would avoid entities having to go through an exhaustive search of all historical transactions to identify those that are in the scope of the amendments. However, that same Committee member said it was unclear:

- (a) what is meant by ‘transaction’—for example, for borrowing costs that are potentially in the scope of the amendments (see paragraph B2(b) of this paper), would the transaction be (a) a new qualifying asset acquired after transition; or (b) borrowing costs incurred after transition but capitalised as part of the cost of an existing qualifying asset.

- (b) whether the choice of prospective application for transactions other than leases and decommissioning obligations would apply to all such transactions, or in another way (eg on a transaction-by-transaction basis).⁸

D4. We were also made aware that our preliminary recommendations were unclear in terms of:

- (a) how entities would apply the amendments for the first time to transactions other than leases and decommissioning obligations if they choose to not apply the amendments prospectively; and
- (b) whether there would be specific transition requirements for first-time adopters.⁹

Staff analysis

D5. After considering Committee members' comments, we recommend that the Board require, rather than allow, entities to apply the amendments prospectively to transactions other than leases and decommissioning obligations. We also note that by requiring entities to apply the amendments prospectively, entities that might currently recognise deferred tax for such transactions would not be required to change their accounting policy for those transactions.

D6. We also think the Board should not clarify the meaning of 'transaction'. IAS 12 already requires entities to consider a 'transaction' when assessing the applicability of the recognition exemption.

D7. Our analysis and recommendations in this paper specifically consider transition requirements for first-time adopters (see paragraphs 33–36).

⁸ In our preliminary recommendations presented to the Committee, we recommended that the Board allow—rather than require—entities to apply the amendments prospectively to transactions other than leases and decommissioning obligations.

⁹ The papers discussed by the Committee did not include our analysis of transition requirements for first-time adopters.