

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS OF THE AMENDMENT TO IFRS 1 'FIRST-TIME ADOPTION OF IFRS: LIMITED EXEMPTION FROM COMPARATIVE IFRS 7 DISCLOSURE FOR FIRST TIME ADOPTERS'

Comments should be sent to commentletter@efrag.org by 18 February 2010

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the Amendment to IFRS 1 *First Time Adoption of IFRS: Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters* (the Amendment). In order to do that, EFRAG has been carrying out a technical assessment of the Amendment to IFRS 1 against the criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that are likely to arise from its implementation in the EU.

A summary of the Amendment is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record unless the respondent requests confidentiality. In the interest of transparency, EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

CNC - Comissão de Normalização Contabilística

(b) Are you/is your organisation or company a:

- Preparer User Other (please specify)

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Public Authority

- (c) Please provide a short description of your activity/the general activity of your organisation or company:

Accounting Standard Setter

- (d) Country where you/your organisation or company is located:

Portugal

- (e) Contact details including e-mail address:

cecnc@igf.min-financas.pt

2 EFRAG's initial assessment of the Amendment is that it meets the technical criteria for endorsement. In other words, they are not contrary to the true and fair principle and it meets the criteria of understandability, relevance, reliability and comparability. EFRAG's reasoning is set out in Appendix 2.

- (a) Do you agree with this assessment?

Yes No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

- (b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendment? If there are, what are those issues and why do you believe they are relevant to the evaluation?

- 3 EFRAG is also assessing the costs that will arise for preparers and for users on application of the Amendment in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

The results of the initial assessment are set out in Appendix 3. To summarise, EFRAG's initial assessment (see Appendix 3, paragraphs 2 and 3) is that the Amendment is:

- (a) likely to involve no incremental costs for preparers;
(b) likely to involve users in some additional year one costs.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

- 4 EFRAG's initial assessment is that the benefits to be derived from applying the Amendment will exceed the costs involved (Appendix 3, paragraph 6).

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Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

- 5 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Amendments.

Do you agree that there are no other factors?

Yes No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

APPENDIX 1

A SUMMARY OF THE AMENDMENT TO IFRS 1

- 1 In March 2009, the IASB amended IFRS 7 *Financial Instruments: Disclosures* to require enhanced disclosures about fair value measurements and liquidity risk. Due to the urgent need for the enhanced disclosures, the IASB had to forego a normal lead time (at least 6-18 months from issue to the effective date) and required entities to provide the enhanced disclosures in financial years starting on or after 1 January 2009. The IASB concluded that a lack of the lead time could have precluded most entities from presenting comparative information without significant effort and potential hindsight and provided relief that in the first year of application of the amendment, entities need not provide comparative information for the disclosures required by the amendment.
- 2 Subsequent to the issuance of the above amendment to IFRS 7, it was brought to the attention of the IASB that the relief regarding restatement of comparatives, as explained above, are not available for entities that apply IFRS for the first time. The IASB decided that such entities would be in the same position as existing preparers of IFRS and as such the same relief should apply and issued this Amendment.

APPENDIX 2

EFRAG'S TECHNICAL ASSESSMENT OF THE AMENDMENTS TO IFRS 1 AGAINST THE ENDORSEMENT CRITERIA

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity as a contributor to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as adviser to the European Commission on endorsement of the final IFRS or Interpretation on the issue.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the European endorsement criteria, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

- 1 EFRAG has considered whether the Amendment meets the requirements of the European Parliament and of the Council on the application of international accounting standards, in other words that the Amendment:
 - (a) is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and in Article 2(3) of Council Directive 78/660/EEC; and
 - (b) meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG has also considered whether it is in the European interest to adopt the Amendment.

Comparability

- 2 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.
- 3 The Amendment provides an optional relief to entities from comparative disclosures in IFRS 7 concerning fair value measurements and liquidity risk if those comparative periods end before 31 December 2009. If an entity makes use of the option, comparability of financial statements of such an entity will be affected.
- 4 However, by requiring entities to provide enhanced disclosures about liquidity risk and fair value measurement the IASB was responding to the urgent need of users of financial statements for such disclosures in the current economic climate.
- 5 EFRAG considers that the expedient adoption of the enhanced disclosures by entities in the current economic climate outweighs negative effects of reduction in comparability caused by the relief. Furthermore it should be noted that the loss in

comparability will be temporary because the relief from comparative disclosures applies only if comparative periods end before 31 December 2009.

Relevance

6 According to the Framework, information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.

7 The Amendment does not raise any issues of relevance.

Reliability

8 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. The Framework explains that information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

9 The Amendment does not raise any issues concerning reliability.

Understandability

10 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.

11 The Amendment does not raise any issues concerning understandability.

True and fair view

12 For the reasons set out above, EFRAG sees no reason to conclude that the Amendment is inconsistent with the true and fair view requirement.

Cost and benefit

13 EFRAG has considered whether the benefits of implementing the Amendment in the EU exceed the cost of doing so. EFRAG's initial assessment (as explained more fully in Appendix 3) is that the benefits of implementing the Amendment outweigh the costs involved.

Conclusion

6 After considering all the above arguments, EFRAG has concluded that, on balance, the Amendment satisfies the criteria for EU endorsement and that it is likely to be in the European interest to adopt it. Accordingly, EFRAG recommends its endorsement in Europe.

APPENDIX 3

EFRAG'S EVALUATION OF THE COSTS AND BENEFITS OF THE AMENDMENT TO IFRS 1

- 1 EFRAG has also considered whether, and if so to what extent, implementing the Amendment in the EU might involve preparers and/or users incurring incremental costs, and whether those costs are likely to be exceeded by the benefits to be derived from their adoption.

Costs for preparers

- 2 The Amendment will not result in any incremental costs for preparers.

Costs for users

- 3 There will be some incremental costs to users in year one as the Amendment may result in the lack of comparative information in financial statements of those entities that elect to make use of the relief.

Benefits for preparers and users

- 4 The relief brings benefits to preparers by reducing costs of transition to IFRS.
- 5 The Amendment does not benefit users directly. However, the relief is a means of enabling entities to adopt the enhanced disclosures as soon as possible, and this is of benefit to users in the current economic climate.

Conclusion

- 6 EFRAG's overall assessment is that:
 - (a) The benefit of the Amendment to preparers is that it will result in decrease of costs of transition to IFRS; and
 - (b) The Amendment is likely to involve users in additional costs in year one but not thereafter, albeit outweighed by benefits from improved disclosures about liquidity risk and fair value measurements in IFRS 7 that the IASB made effective expediently in response to users' needs in the current economic climate.