EFRAG

European Financial Reporting Advisory Group

Jonathan Faull
Director General
European Commission
Directorate General for the Internal Market
1049 Brussels

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Dear Mr Faull

Adoption of the amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of the amendments to IFRS 7 *Financial Instruments: Disclosures –Transfers of Financial Assets* (the Amendments), which was issued by the IASB on 13 October 2010. It was issued as an Exposure Draft in March 2009 and EFRAG commented on that draft.

The Amendments set out to help users of financial statements better evaluate the risk exposures relating to transfers of financial assets, and the effect of those risks on an entity's financial position. Their objective is to promote transparency in the reporting of transfer transactions.

The Amendments require an entity to provide:

- a qualitative description of the nature of the relationship between transferred assets and associated liabilities and a schedule that sets out the fair value of the transferred financial assets, the associated liabilities and the net position when the counterparty to the associated liabilities has recourse only to the transferred assets where the financial assets remained on the entity's balance sheet because the derecognition rules of IAS 39 Financial Instruments: Recognition and Measurement did not allow their derecognition; and

- information about the timing of the return and cash flows that would or may be required to repurchase the derecognised financial asset in the future, gains or losses, and timing thereof, recognised on derecognition of the assets and information about the distribution of an entity's derecognition activities where the entity derecognised the financial assets but retained some form of continued exposure that was no longer captured by the balance sheet after derecognising these assets.

The Amendments become effective for annual periods beginning on or after 1 July 2011. Earlier application is permitted, however entities shall disclose that fact. An entity need not provide the disclosures required by these amendments for any period presented that begins before the date of initial application of the Amendments.

EFRAG has carried out an evaluation of the Amendments. As part of that process, EFRAG issued an initial evaluation for public comment and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG supports the Amendments and has concluded that they meet the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- they are not contrary to the "true and fair principle" set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

- they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt the Amendments and, accordingly, EFRAG recommends their adoption. EFRAG's reasoning is explained in the attached 'Appendix - Basis for Conclusions'.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Françoise Flores
EFRAG, Chairman

APPENDIX 1
BASIS FOR CONCLUSIONS

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* (the Amendments).

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.

Does the accounting that results from the application of the Amendments meet the criteria for EU endorsement?

1 EFRAG has considered whether the Amendments meet the requirements of the European Parliament and of the Council on the application of international accounting standards, in other words that the Amendments:

(a) meet the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

(b) meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

Relevance

2 EFRAG considers that information is relevant 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.

3 EFRAG considered whether the Amendments would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

4 The Amendments focus on information about the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. This information provides an insight into an entity's cash flow needs and the cash flows available to an entity from its own assets, and how they may change in the future. EFRAG therefore believes that this information is relevant.

Reliability

5 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. EFRAG considers 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.

6 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness. In EFRAG's view, the Amendments do not raise any significant issues concerning freedom from material error and bias.

7 EFRAG notes that the Amendments require information that is closely related to an entity's internal reporting and/or risk management processes. In managing its risk-exposures, an entity would most likely already monitor the information required by the Amendments. Furthermore, the disclosure requirements are of a similar nature to those already required by IFRS 7 and IAS 39. The Amendments therefore do not create any new reliability concerns in EFRAG's view.

Comparability

8 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.

9 EFRAG has considered whether the Amendments results in transactions that are:

(a) economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they are similar.

10 EFRAG believes that the Amendment results in similar transactions being disclosed in a comparable manner.

Understandability

11 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.

12 EFRAG believes that most aspects to the notion of 'understandability' are covered by the discussion above about relevance, reliability and comparability. For example, information that represents something as similar when it is in fact dissimilar is not comparable, and that lack of comparability will mean it is also not understandable, and vice versa.

13 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of the Amendments is understandable, is whether that information will be unduly complex. In EFRAG's view, the Amendments do not introduce any new complexities that may impair understandability. EFRAG believes that the amended disclosure

requirements provides more clarity than those currently in IFRS 7 and therefore improves understandability.

True and Fair

14 EFRAG has also concluded that there is no reason to believe that the information resulting from the application of the Amendments would be contrary to the true and fair view principle.

Conclusion

15 EFRAG's conclusion is that the Amendments satisfy the criteria for EU endorsement and EFRAG should therefore recommend their endorsement.