EFRAG
European Financial Reporting Advisory Group

INVITATION TO COMMENT ON THE EFRAG'S ASSESSMENTS OF THE IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Comments should be sent to commentletter@efrag.org or uploaded via our website by 17 June 2010

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the *Improvements to International Financial Reporting Standards* ('the Amendments'). In order to do that, EFRAG has been carrying out a technical assessment of the Amendments against the criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from their implementation in the EU.

A summary of the Amendments 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:

Belgian Accounting Standards Board

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

☐ Preparer ☐ User X Other (please specify)

Belgian Accounting Standard Setter

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

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

Belgium

(e) Contact details including e-mail address:

Ignace.bogaert@cnc-cbn.be

CNC – CBN; North Gate III; Koning Albert II-laan; 1000 Brussels

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

(a) Do you agree with this assessment?

X 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 Amendments? 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 to implement the Amendments, 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 is that the Amendments are:

(a) likely to involve preparers in:

(i) year one incremental costs and insignificant ongoing costs for preparers in relation to the IAS 34 *Interim Financial Reporting* – Significant events and transactions amendment;

(ii) significant cost savings in year one in relation to the amendments to IFRS 1 *First-time Adoption of IFRSs* relating to (1) the use of deemed cost for operations subject to rate regulation and (2) revaluation basis as deemed cost.

(b) likely to involve users in:

(i) insignificant incremental costs in year one and on-going insignificant costs in relation to IFRS 1 *First-time Adoption of IFRSs* - Use of deemed cost for operations subject to rate regulation;

(ii) incremental benefits because the Amendment to IAS 34 *Interim Financial Reporting* – Significant events and transactions will result in improved quality of information in the interim reports.

Question to constituents:

Based on EFRAG's preliminary assessment, the IFRS 1 *First-time Adoption of IFRSs* - Use of deemed cost for operations subject to rate regulation is likely to subject users to insignificant year one costs. Do you agree that years one costs will be insignificant? If not, please explain why?

Do you agree with this assessment?

X 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 The Amendments are likely to result in improvements in the quality of the information provided. Taken individually, most of these improvements are likely to be relatively small; however, EFRAG believes that two amendments, IAS 34 Interim Financial Reporting – Significant events and transactions and IFRS 1 First-Time Adoption of IFRSs – Revaluation basis as deemed cost and Use of deemed cost for operations subject to rate regulation, will have a noticeable effect on the quality of the information provided. Its initial assessment furthermore is that the benefits to be derived from applying the amendments will exceed the costs involved (Appendix 3, paragraphs 17).

Do you agree with this assessment?

X 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?

We are of the opinion that the 11 proposed amendments to six standards and one interpretation are all minor improvements that do not urge a usual due process except for the amendment to IFRS 1, as we believe that this amendment is likely to increase the use of fair value as deemed cost for existing preparers as well for first-time adopters, and thereby improving the net asset position of entities.

Existing preparers need to evaluate the costs to determine the event-driven fair value and subsequent effects as depreciation charges or impairments. However, they have a limited time frame, ending with the financial year beginning on or after 1 January 2011.

With respect to these existing preparers we question whether the associated costs are lower than the potentially obtained benefits.

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?

X 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 AMENDMENTS

1 The IASB has adopted an annual process to deal with non-urgent, but necessary, amendments to IFRSs (the annual improvements process). Issues dealt with in this process arise from matters raised by the International Financial Reporting Interpretations Committee (IFRIC) and suggestions from staff or practitioners, and focus on areas of inconsistency in IFRSs or where clarification of wording is required.

2 The amendments considered in this Invitation to Comment are the amendments to International Financial Reporting Standards (IFRSs) and the related Bases for Conclusions and guidance made in the International Accounting Standards Board's annual improvements standard published on 6 May 2010 *Improvements to IFRSs* (henceforth referred to as the Amendments). The Amendments were issued in draft form in one exposure draft on Improvements to IFRSs that were issued in 2009.

3 Set out below is a description of each of the Amendments made by the standard.

IFRS 1 First-Time Adoption of International Financial Reporting Standard – Accounting policy changes in the year of adoption

4 Paragraph 27 of IFRS 1 *First-time Adoption of IFRSs* states that "IAS 8 does not deal with changes in accounting policies that occur when an entity first adopts IFRSs. Therefore, IAS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first IFRS financial statements."

5 The IASB has been asked to clarify:

(a) whether a first-time adopter is exempt from all the requirements of IAS 8 for the interim and annual periods presented in its first IFRS financial statements;

(b) if and to the extent that IAS 8 does not apply, what, if any, requirements apply when an entity changes its accounting policies between the first interim financial statements and its first annual financial statements; and

(c) whether an entity is able under IFRS to change the way it is applying the exemptions and other reliefs available under IFRS 1 in its first annual IFRS financial statements, compared to how it applied them in preparing interim financial statements and, if it is able to change them, what if any requirements apply to those changes in accounting policies.

6 The IASB observed that IFRS 1 deals with the transition from local GAAP to IFRS and IAS 8 deals with changes in accounting policies thereafter. It also observed that an entity completes the transition from local GAAP to IFRS when it has finalised its first IFRS annual financial statements. Thus, a first-time adopter is exempt from all the requirements of IAS 8 for the interim and annual periods presented in its first IFRS financial statements. If that entity wishes to change the way it is applying the exemptions and other reliefs available under IFRS 1 in its first annual IFRS financial statements compared to how it applied them in preparing interim financial statements, it is free to do so; and such a change will be governed by the requirements of IFRS 1.

7 The IASB further noted that IFRS 1 requires reconciliations of profit or loss and of equity reported under previous GAAP to those under IFRSs at both the date of transition to IFRSs and the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP. If an entity presents interim financial reports in accordance with IAS 34, its first interim financial report for part of the period covered by its first IFRS financial statements shall include those reconciliations.

8 The IASB concluded that, to comply with IFRS 1's requirement to explain its transition to IFRS, an entity should be required to explain any changes in its accounting policies or IFRS 1 exemptions it applied between its first IFRS interim financial report and its first IFRS annual financial statements. The IASB decided that the most useful information it could require was updated reconciliations between previous GAAP and IFRSs.

9 In March, the IASB clarified that changes made by an entity in its accounting policies or in its use of the exemptions contained in IFRS1 shall be explained in each such interim report in accordance with the requirements of paragraph 23 of IFRS 1.

10 The IASB is therefore proposing to amend IFRS 1 to clarify the position.

IFRS 1 First-Time Adoption of International Financial Reporting Standard – Revaluation basis as deemed cost and use of deemed cost for operations subject to rate regulation

11 Some entities might have established a deemed cost in accordance with the accounting requirements they were following at the time for some or all of their assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering (IPO). Existing paragraph D8 of IFRS 1 permits a first-time adopter to use such an event-triggered revaluation basis as 'deemed cost' under IFRSs. The existing wording in IFRS 1 suggests that the exemption applies to events that occur before the date of transition to IFRS.

12 The IASB considered and concluded that the exemption should equally apply for similar events that occur after the date of transition to IFRSs but during the periods covered by the first-time adopter's first IFRS financial statements. That conclusion was based on the reasons that it would be unduly onerous because the first-time adopter would have to prepare two sets of measurements for its assets and liabilities – one to comply with IFRS and another to comply with local law. Accordingly, the exemption should equally apply when the event occurs during the period covered by the first IFRS financial statements.

13 At the date of transition to IFRS, the entity shall either establish a deemed cost by applying the criteria in paragraphs D5 to D7 or measure assets and liabilities in accordance with other IFRS. In other words prior to the event driven revaluation, comparative figures will either be measured in accordance with D5 to D7 or be measured in accordance with other IFRSs.

14 The board also concluded that the same relief should apply to an entity that adopted IFRSs in periods before the effective date of IFRS 1 or applied IFRS 1 in a prior period, provided that the event driven measurement date is within the period covered by its first IFRS financial statements.

15 The board also decided to extend the use of deemed cost exemption to entities with operations subject to rate regulation. The exemption allows an entity with operations subject to rate regulation to use the carrying amount of property, plant and equipment held (or previously held) for use in such operations determined under previous GAAP as their deemed cost at the date to transition to IFRSs. The exemption shall apply the exemption item by item.

16 If an entity elects to use the deemed cost exemption, then the entity shall disclose that fact and the basis for determining the carrying amounts under the previous GAAP.

17 If the exemption is applied at the date of transition then an impairment test is carried out on this date in accordance with IAS 36 *Impairment of assets.*

IFRS 3 Business Combinations – Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS

18 When the IASB issued IFRS 3 (revised 2008) it deleted the scope exemption in respect to contingent consideration in IFRS 7 *Financial Instruments: Disclosures*, IAS 32 *Financial Instrument: Presentation and in* IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB did this to allow the acquirer to account for contingent consideration in accordance with the revised IFRS 3.

19 The deletion of the scope exemption was being by interpreted by some constituents as meaning that IAS 39 would apply to all contingent consideration, including the treatment of contingent consideration arising from a business combination whose acquisition date *preceded* the application of the revised IFRS 3 (pre-adoption contingent consideration). This treatment is inconsistent with the principle of prospective application of the revised IFRS 3.

20 The IASB has amended IFRS 3 to eliminate this inconsistency. The effect of the amendment is to require an entity to account for pre-adoption contingent consideration as an adjustment to the original cost of the business combination (i.e. goodwill would be adjusted), instead of as required by paragraph 58 the revised IFRS 3.

IFRS 3 Business Combinations – Measurement of non-controlling interests

21 IFRS 3 (as revised in 2008) introduced a measurement choice for NCI and permits an entity to measure NCI at its acquisition date fair value *or* at NCI's proportionate share of the acquiree's identifiable net assets.

22 The revised IFRS 3 also replaced the term minority interests (MI) with the term NCI and changed the definition of NCI as follows:

(a) MI was defined as: that portion of the profit or loss and net assets of a subsidiary attributable to the equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

(b) NCI is defined as: the equity in a subsidiary not attributable, directly or indirectly, to a parent.

23 The issue is about measuring components of NCI in accordance with IFRS 3 (as revised in 2008) in a business combination at the acquisition date, when an entity

chooses to measure NCI at the proportionate interest of the acquiree's net identifiable assets.

24 The IASB was informed that some constituents thought that the amended definition of NCI had widened the scope of instruments that it covers, to include for example, the equity components of convertible bonds, warrants, options over own shares and options under share-based payment plans under IFRS 2 *Share-based Payment* (not held by the parent). As a result, some were measuring those other components of NCI at nil.

25 In response to the concerns raised, the IASB proposed an amendment to IFRS 3 to limit the measurement choice to cover *non-controlling interests that are present ownership instruments and entitle their holders to a pro rata share of the entity's net assets in the event of liquidation*. The acquirer should measure other components of non-controlling interest at fair value or other measurement bases as required by IFRSs.

IFRS 3 Business Combinations – Un-replaced and voluntarily replaced share-based payments awards

26 The current IFRS 3 addresses the replacement in a business combination of share-payment awards of the acquiree with share-based payment awards of the acquirer in two scenarios:

(a) When the acquirer is obliged to replace the acquiree awards;

(b) When the acquirer voluntarily replaces the acquiree awards and these awards would have expired as a consequence of the business combination.

In the first case, entities must allocate some or all the market-based value of the replacement awards to the consideration transferred for the business combination; the residual is recognised as a post-combination cost. Paragraphs B57-B62 provides guidance on how to allocate. In the second case, all the market-based value of the replacement awards should be recognised as a post-combination cost.

27 IFRS 3 does not address the following cases:

(a) When the acquirer voluntarily replaces acquiree awards that would not have expired as a consequence of the business combination;

(b) When the acquirer does not replace the acquiree awards.

The amendments to the Application Guidance extend the same accounting treatment to all replacement awards, except those that the acquirer issues voluntarily to replace acquiree awards that would have expired. Paragraphs B57-B62 is unchanged.

28 The acquirer measures un-replaced acquiree awards at their market-based measure at acquisition date and includes them in non-controlling interest based on the ratio of the portion of vesting period elapsed to the original vesting period (or the new total vesting period, if longer).

29 The amendment shall be applied for annual periods beginning on or after 1 July 2010 with the option of early adoption.

IFRS 7 Financial Instruments: Disclosures – Clarification of disclosures

30 The Board amends IFRS 7 as follows:

(a) the qualitative disclosures in paragraph 33 should support and enhance the quantitative disclosures in paragraphs 34–42;

(b) to clarify that the requirement in paragraph 36(a) to disclose information about the maximum exposure to credit risk applies to financial assets whose carrying amounts do not reflect the reporting entity's maximum exposure to credit risk and off balance sheet exposures;

(c) to remove the requirement in paragraph 37(c) to disclose for instruments past due but not impaired and that are determined individually impaired the description of collateral held as security and their fair value;

(d) to remove the requirement in paragraph 36(d) to disclose carrying amount of financial instruments renegotiated to avoid becoming past due or impaired;

(e) to clarify that the requirement in paragraph 38 applies only to foreclosed collateral held at the reporting date to be consistent with the objective to enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

IAS 1 Presentation of Financial Statements – clarification of statement of changes in equity

31 The revised wording clarifies (paragraphs 106 and 107 were amended and paragraph 106A was added) that presentation of reconciliation requirements for classes of accumulated other comprehensive income (which are components of equity) is permitted in the notes. This amendment thus removes inconsistencies between the current wording of paragraph 106(d) and the example of the statement of changes in equity within the implementation guidance, *Part I: Illustrative presentation of financial statements*, accompanying IAS 1.

IAS 27 Consolidated and Separate Financial Statements – Transition requirements for amendments made as a result of IAS 27 (as amended in 2008) to IAS 21, IAS 28 and IAS 31

32 The IAS 27 (as amended in 2008) resulted in various consequential amendments to other IFRSs.

33 Some of the consequential amendments include transitional guidance and specify whether the amendments should be applied prospectively or retrospectively (for example the amendment to IFRS 5 specifies that the amendment shall be applied retrospectively). However, other consequential amendments are silent on the transition issue.

34 The amendment clarifies that the 'consequential amendments' should be applied prospectively. This is consistent with the transition requirements in IAS 27 (as amended in 2008).

IAS 34 Interim Financial Reporting – Significant events and transactions

35 The IASB has been considering whether some or all of the disclosures required by IFRS 7 *Financial Instruments: Disclosures* for annual financial statements should also be required in interim financial statements.

36 The IASB noted that, although IAS 34 does not require specific disclosures, it sets out disclosure principles to determine what information should be disclosed in an interim financial report. However, the IASB concluded that those principles needed to be further emphasised to ensure that appropriate disclosures were made in interim financial reports. This amendment is thus amending IAS 34 (paragraphs 15-19) to place greater emphasis on the principles (significant events and transactions, updated information) and to include additional examples relating to more recent disclosure requirements, such as fair value measurement disclosures.

IFRIC 13 Customer Loyalty Programmes – Fair value of award credit

37 Paragraph AG2 of IFRIC 13 provides guidance on how this fair value can be estimated. However, it has been brought to the IASB's attention that, because paragraph AG2 uses the term "fair value" to refer to both the value of the award credits and the value of the awards for which the credits could be redeemed, the resulting guidance could be misinterpreted. The IASB therefore amends paragraph AG2 (and Example 1 in the illustrative examples) to clarify that, when the fair value of award credits is estimated by reference to the value of the awards for which they could be redeemed, the value of those awards shall be adjusted to reflect expected forfeitures as well as discounts or incentives.

APPENDIX 2
EFRAG'S TECHNICAL ASSESSMENT OF THE AMENDMENTS 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 advisor 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.

Introduction

1 When evaluating the merits of the Amendments, EFRAG considered the following key questions:

(a) Are the requirements of the Amendments consistent with the IASB's Framework for the Preparation and Presentation of Financial Statements ('the Framework')?

(b) Would the Amendments' implementation result in an improvement in accounting?

(c) EFRAG has considered whether the Amendments meets the requirements of the European Parliament and of the Council on the application of International accounting standards, in other words that the Amendments:

(i) 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

(ii) 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 Amendments.

Are the requirements of the Amendments consistent with the IASB's Framework?

2 EFRAG considered whether the requirements in the Amendments are consistent with the IASB's Framework. When EFRAG considered whether existing IFRSs should be endorsed, it considered whether their accounting treatments were consistent with the Framework. As the Amendments involve providing clarification and additional guidance on some accounting aspects of those existing IFRSs—and as a result do not introduce fundamental changes to existing IFRS literature—EFRAG concluded that the Amendments are consistent with the provisions in the Framework.

Would the Amendments' implementation result in an improvement in accounting?

3 EFRAG notes that, of the ten Amendments in the standard, the eight Amendments listed below are clarifications or corrections of existing IFRS or are Amendments that are consequential to changes to IFRS previously made:

- IFRS1 *First-time Adoption of International Financial Reporting Standards* – Accounting policy changes in the year of adoption;
- IFRS 3 *Business Combinations* - Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS;
- IFRS 3 *Business Combinations* - Measuring non-controlling interests;
- IFRS 3 *Business Combinations* - Un-replaced and voluntarily replaced share-based payment awards;
- IFRS 7 *Financial Instruments: Disclosures* - Clarification of disclosures;
- IAS 1 *Presentation of Financial Statements* - Clarification of statement of changes in equity;
- IAS 27 *Consolidated and Separate Financial Statements* - Transition requirements for consequential amendments of IAS 27 to IAS 21, IAS 28 and IAS 31;
- IFRIC 13 Customer Loyalty Programmes - Fair value of award credits.

4 In EFRAG's view, all the above Amendments are straightforward and not controversial; by clarifying or correcting existing IFRS in some – albeit small way – they make standards easier to implement consistently, without raising any new concerns. Those Amendments are not discussed specifically in this appendix.

5 The following two amendments involve changes to the existing requirements or additional guidance on the implementation of those requirements:

- IFRS1 First-time Adoption of IFRSs - Revaluation basis as deemed cost and Use of deemed cost for operations subject to rate regulation; and
- IAS 34 Interim Financial Reporting – Significant events and transactions.

6 We consider the amendment to IAS 34 to be straightforward and not controversial. Therefore, we do not discuss that amendment specifically in this appendix.

IFRS1 First-time Adoption of IFRSs - Revaluation basis as deemed cost and Use of deemed cost for operations subject to rate regulation

7 The amendment to IFRS 1 - Revaluation basis as deemed cost does not significantly change paragraph D8, but rather increases its scope. Hence it is unlikely that it will have a significant impact on understandability, relevance, reliability and comparability of financial statements. EFRAG has therefore not commented specifically on this amendment as the exemption already existing IFRS 1 is not altered by this amendment.

8 EFRAG has commented on the amendment to IFRS 1 – Use of deemed cost for operations subject to rate regulation because we believe the amendment has an impact on comparability, relevance, reliability and understandability.

Comparability

9 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 dissimilar items and events should be accounted for differently.

10 As with any introduction of a deemed cost measurement base, comparability is impaired between first-time adopters and entities that already apply existing IFRS. This is because rate regulated entities can apply the exemption to use deemed cost which may not include items that would be allowed to be capitalised under existing IFRS.

11 Having said that, disclosing the basis of calculations under previous GAAP will assist users to reconcile the differences between that GAAP and IFRS which will reduce to some extent the incomparability.

12 The amendment will allow for easier adoption of IFRS and accordingly more rate regulated entities will apply IFRS so that over-time financial statements become more comparable.

13 There is a cost-benefit trade off in terms of comparability; however, EFRAG thinks the benefits of applying the amendment will exceed the costs of reduced comparability. This is discussed further in Appendix 3 (paragraph's 11 and 12).

14 As a result, EFRAG's initial assessment is that the amendment meets the comparability criterion.

Relevance

15 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.

16 EFRAG's initial assessment about the amendments' relevance is very similar to its assessment of comparability; there might be a short-term deterioration in relevance. Overtime however there will be an overall improvement in the relevance of the information provided. For that reason, EFRAG's overall assessment is that the amendment meets the relevance criterion.

Reliability

17 EFRAG also considered the reliability of the information that will be provided by applying the Amendment. 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.

18 The initial amendment does not require any amounts to be calculated therefore gives rise to no reliability issues.

Understandability

19 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. Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most aspects are covered by the discussion above about relevance, reliability and comparability (because, 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). 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 amendment is understandable is whether that information will be unduly complex.

20 EFRAG's initial view is that the amendment does not introduce new complexities into the financial statements.

True and fair view

21 For the reasons set out above, EFRAG does not believe that the amendment is inconsistent with the true and fair view requirement.

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

22 As already mentioned, EFRAG has previously concluded that the various IFRSs affected by the Amendments meet the endorsement criteria. Furthermore, as explained above, EFRAG believes that the Amendments are consistent with the Framework, and its assessment is that the Amendments are likely either to improve the financial information provided or have no effect on that information. In particular, EFRAG has concluded that the Amendments 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.

23 EFRAG also concluded that there was no reason to believe that the information resulting from the application of the Amendments would be contrary to the true and fair view principle or that implementation of the Amendments in the EU would be contrary to the European interest.

Conclusion

24 EFRAG has concluded that the Amendments satisfy the criteria for endorsement in the EU and that it should recommend that the Amendments be endorsed for use in the EU.

APPENDIX 3
EFRAG'S EVALUATION OF THE COSTS AND BENEFITS OF THE AMENDMENTS

General comments

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

2 EFRAG started its assessment of the costs and benefits of implementing the Amendments by considering whether they were likely to be any measureable costs involved for preparers or users in implementing any of the Amendments the standard. EFRAG's initial assessment is that there will be a year one cost for preparers in reading and understanding the Amendments made, but that cost will be insignificant. EFRAG's initial assessment is also that the Amendments will not involve any measurable change in costs for preparers or users except in the areas discussed below.

3 Based on EFRAG's initial assessment, the application of the following two amendments will have a cost and/or benefit impact on preparers and/or users.

IFRS1 First-time Adoption of IFRSs - Revaluation basis as deemed cost

Costs for preparers

4 EFRAG's initial assessment is that the proposed amendment will result in a significant one-time cost saving because the entity can elect to apply the event driven fair values as deemed cost at any date in the first IFRS financial statements.

Costs for users

5 EFRAG's initial assessment is that there will be no cost or benefit impact on users.

Benefits for preparers and users

6 The relief brings benefits to preparers by reducing costs of transition to IFRS.

7 The amendment does not benefit users directly. However the relief is a means of enabling entities to adopt IFRS without incurring significant incremental costs which leads to greater benefits over-time

IFRS1 First-time Adoption of IFRSs - Use of deemed cost for operations subject to rate regulation

Costs for preparers

8 EFRAG believes that an entity applying the exemption to use the carrying amount of property, plant and equipment held (or previously held) determined under previous GAAP as their deemed cost at the date to transition to IFRSs will result in a significant one-time cost saving because no restatement from previous GAAP to IFRS would be required. This means an analysis would not have to be carried out to ensure all costs capitalised complies with existing IFRS.

9 However as at the date of transition to IFRS the entity will have to carry out the necessary calculations for impairment testing. This will subject preparers to one-time incremental costs but no on-going costs.

10 EFRAG's initial assessment is that the proposed amendment will result in a significant one-time reduction in costs however preparers will incur one-time additional costs because of the additional impairment requirements at the date of transition to IFRS. It is believed that the reduction in costs will outweigh the incremental costs.

Costs for users

11 EFRAG's initial assessment is that there will be insignificant incremental costs to users in year one and on-going insignificant costs because of the lack of comparable information in financial statements of those entities that elect to make use of the relief.

Benefits for preparers and users

12 The relief brings benefits to preparers by reducing costs of transition to IFRS.

13 The amendment does not benefit users directly. However the relief is a means of enabling entities to adopt IFRS without incurring significant incremental costs which leads to greater benefits over-time.

IAS 34 Interim Financial Reporting – Significant events and transactions

Costs for preparers

14 EFRAG's initial assessment is that the amendments to IAS 34 will involve incremental year one costs for preparers. Most of that cost will arise as preparers will probably have to adjust their systems to collect more information for interim financial reporting purposes. There will probably also be some ongoing costs, but EFRAG's initial assessment is that those ongoing costs will usually be insignificant.

Costs for users

15 EFRAG does not believe that the amendments will increase the costs incurred by users in analysing the financial statements as a result of its adoption. However one of the costs that would probably need to be taken into account is that requiring enhanced disclosures in the field of fair value measurements could delay the publication of interim reports.

Benefits for preparers and users

16 EFRAG's initial assessment is that the amendments will overall improve the quality of the information provided in the interim financial reports.

Conclusion

17 EFRAG's initial assessment is that the benefits from these two amendments are likely to outweigh the costs involved.