

The costs and benefits of implementing the Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

INTRODUCTION

- 1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG will gather that information in the case of the amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards Improvements to IFRS* issued in April 2009 (the Amendments).
- 2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly extensive work in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendment, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. The results of the consultations EFRAG has carried out seem to confirm this. Therefore, as explained more fully in the main sections of the report, the approach EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing the Amendments in the EU, to consult on the results of those initial assessments, and to finalise those assessments in the light of the comments received.

EFRAG's endorsement advice

- 3 EFRAG also carries out a technical assessment of all new and revised Standards and Interpretations issued by the IASB and IFRIC against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

A SUMMARY OF THE AMENDMENT

- 4 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.

- 5 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.

EFRAG'S INITIAL ASSESSMENT OF THE COSTS AND BENEFITS OF THE AMENDMENT

- 6 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing the Amendment, both in year one and in subsequent years. The results of EFRAG's initial assessment can be summarised as follows:
 - (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.
- 7 EFRAG published its initial assessment and supporting analysis on 29 January 2010 and invited comments by 18 February 2010. In response EFRAG received 7 comment letters. Three respondents agreed with EFRAG's assessment of the benefits of implementing the Amendment and the associated costs involved for users and preparers. The other four respondents did not comment specifically on EFRAG's initial assessment of the costs and benefits of implementing the Amendment in the EU, but supported EFRAG's recommendation that the Amendment be adopted for use in Europe.

EFRAG'S FINAL ASSESSMENT OF THE COSTS AND BENEFITS OF THE AMENDMENT

- 8 Based on its initial analysis and stakeholder views on that analysis, EFRAG's detailed final analysis of the costs and benefits of the Amendment is presented in the paragraphs below.

Costs for preparers

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

Costs for users

- 10 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

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

- 13 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.

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19 February 2010