

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

19 January 2012

Dear Mr Faull

Adoption of Severe Hyperinflation and Removal of fixed dates for first-time adopters (Amendments to IFRS 1)

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 *Severe Hyperinflation and Removal of fixed dates for first-time adopters (Amendments to IFRS 1)* ('the Amendments'), which was issued by the IASB on 20 December 2010. The Amendments result from proposals initially included in two different exposure drafts issued in August and September 2010. EFRAG commented on those drafts.

The objective of the Amendments is to introduce a new exemption in the scope of IFRS 1 *First-time Adoption of International Reporting Standards*. Entities that had been subject to severe hyperinflation are allowed to use fair value as the deemed cost of their assets and liabilities in their opening IFRS statement of financial position. In addition, the Amendments also replace the references to fixed dates in IFRS 1 with references to the date of transition.

The Amendments become effective for annual periods beginning on or after 1 July 2011.

The Amendments to IFRS 1 include consequential amendments to IFRS 9 *Financial Instruments*, which has not yet been endorsed in the EU. Therefore, those consequential amendments are not addressed in this endorsement advice and will be considered together with the related requirements in IFRS 9.

EFRAG has carried out an evaluation of the Amendments. As part of that process, EFRAG issued its initial assessment 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 principle of 'true and fair view' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

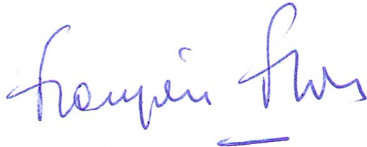
*Severe Hyperinflation and Removal of fixed dates for first-time adopters
(Amendments to IFRS 1)*

- 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 is not aware of any reason to believe that it is not conducive to the European public good 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 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 BASIS FOR CONCLUSIONS

EFRAG'S TECHNICAL ASSESSMENT OF THE AMENDMENTS AGAINST THE ENDORSEMENT CRITERIA

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on Severe Hyperinflation and Removal of fixed dates for first-time adopters (Amendments to IFRS 1) ('the Amendments').

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

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 technical criteria for the European endorsement, 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 technical criteria for EU endorsement?

- 1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002, in other words that the Amendments:
 - (a) are not contrary to the principle of 'true and fair view' 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.

EFRAG also considered, based only on evidence brought to its attention by constituents, whether it would be not conducive to the European public good to adopt the Amendments.

Approach adopted for the technical evaluation of the Amendments

- 2 The Amendments result from proposals initially included in two different exposure drafts. The Amendments have been assessed in the following two groups, based on their nature:
 - (a) **Group A** – Amendments related to severe hyperinflation
 - (b) **Group B** – Amendments related to removal of fixed dates

*Severe Hyperinflation and Removal of fixed dates for first-time adopters
(Amendments to IFRS 1)*

Relevance

- 3 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.
- 4 EFRAG considered whether the Amendments in Group A 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.
- 5 The Amendments in Group A extend the use of fair value as deemed cost – which is already permitted under IFRS 1 in other circumstances – to entities that are first-time adopters after a period of severe hyperinflation. As such, the Amendments do not introduce fundamentally new concepts in the IFRS literature, but merely broaden the scope of application of certain existing concepts.
- 6 The Amendments in Group B are merely the replacement of fixed dates by the expression ‘the date of transition to IFRSs’, and do not introduce a new requirement or option into IFRSs, rather they renew the ability of first-time adopters to use an existing exception and an existing exemption.
- 7 In addition, the Amendments will make it possible for more entities to adopt IFRS, which will result in an overall improvement in the relevance of the information provided.
- 8 EFRAG’s overall assessment is that the Amendments would result in the provision of relevant information; and therefore they satisfy the relevance criterion.

Reliability

- 9 EFRAG also considered the reliability of the information that will be provided by applying the Amendments in Group A. 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 what it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.
- 10 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.
- 11 The Amendments in Group A broaden the scope of application of an existing concept in IFRS 1 and provide entities with an option that allows them to produce more reliable information when applying IFRS 1 after a period of severe hyperinflation.
- 12 EFRAG’s assessment is that the Amendments in Group B do not raise any issues concerning faithful representation or completeness. As noted above, the Amendments in Group B do not introduce a new requirement or option into IFRSs.
- 13 Therefore, EFRAG’s overall assessment is that the Amendments would raise no concerns about risk of error or bias; and therefore they satisfy the reliability criterion.

*Severe Hyperinflation and Removal of fixed dates for first-time adopters
(Amendments to IFRS 1)*

Comparability

- 14 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.
- 15 EFRAG has considered whether the Amendments in Group A result 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.
- 16 As EFRAG already commented in the case of amendment to IFRS 1 – *Revaluation basis as deemed cost*, Amendments in Group A increase the scope of exemptions of IFRS 1. Hence, it is unlikely that it will have a significant impact on comparability of financial statements.
- 17 Also, the Amendments in Group A and the Amendments in Group B will facilitate the adoption of IFRSs by more companies, which will enhance comparability.
- 18 For the reasons stated above, EFRAG's overall assessment is that the Amendments satisfy the comparability criterion.

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.
- 20 Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.
- 21 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.
- 22 In EFRAG's view, the Amendments do not introduce any new complexities into the financial statements. Therefore, EFRAG's overall assessment is that the Amendments satisfy the understandability criterion in all material respect.

True and Fair

- 23 EFRAG's has concluded that the information resulting from the application of the Amendments would not be contrary to the true and fair view principle.

European public good

- 24 EFRAG is not aware of any reason to believe that it is not conducive to the European public good to adopt the Amendments.

*Severe Hyperinflation and Removal of fixed dates for first-time adopters
(Amendments to IFRS 1)*

Conclusion

- 25 For the reasons set out above, EFRAG has concluded that the Amendments satisfy the technical criteria for EU endorsement and EFRAG should therefore recommend its endorsement.