EFRAG
European Financial Reporting Advisory Group

DRAFT ENDORSEMENT ADVICE AND EFFECTS STUDY REPORT ON ANNUAL IMPROVEMENTS TO IFRSs 2010-2012 CYCLE

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS

Comments should be sent to commentletters@efrag.org by 3 March 2014

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the *Annual Improvements to IFRSs 2010-2012 Cycle* ('the Amendments'). In order to do that, EFRAG has been carrying out an assessment of the Amendments against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the European Union (the EU) and European Economic Area.

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

Note to constituents

Annual Improvements to IFRSs 2010-2012 Cycle include consequential amendments to IFRS 9 *Financial Instruments*, which has not yet been endorsed in the EU. Those consequential amendments are not addressed in this Draft Endorsement Advice and will be considered together with the related requirements in IFRS 9.

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.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions on Appendix 2 and 3.

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 a:

☐ Preparer ☐ User X Other (please specify)

(c) Please provide a short description of your activity:

Belgian Accounting Standard Setter

(d) Country where you are located:

Belgium

(e) Contact details including e-mail address:

Jan.verhoeye@cnc-cbn.be

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 principle of true and fair view 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 are likely to arise for preparers and for users on implementation of the Amendments 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 of costs are set out in paragraphs 3, 8, 10, 20, and 23 of Appendix 3. To summarise, EFRAG's initial assessment on the Amendments to IFRS 2 and to IFRS 3 is that:

(a) *IFRS 2 Share-based Payment – Definition of vesting condition*: Overall, EFRAG's initial assessment is that the implementation of the Amendments to

IFRS 2 is likely to result in some one-off costs for preparers while we believe that these amendments will not result in increased ongoing costs both for preparers and users; and

(b) *IFRS 3 Business Combinations – Accounting for contingent consideration in a business combination*: Overall, EFRAG's initial assessment is that the Amendments to IFRS 3 are likely to result both in insignificant one-off and ongoing costs both for preparers and users.

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?

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4 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments.

The results of the initial assessment of costs are set out in paragraphs 3, 15 and 29 of Appendix 3. To summarise, EFRAG's initial assessment on the Amendments to IFRS 2 and to IFRS 3 is that:

(a) *IFRS 2 Share-based Payment – Definition of vesting condition*: Overall, EFRAG's initial assessment is that both preparers and users are likely to benefit from the Amendments to IFRS 2, as they are likely to reduce the ongoing cost of preparing and interpreting financial information on share-based plans; and

(b) *IFRS 3 Business Combinations – Accounting for contingent consideration in a business combination*: Overall, EFRAG's initial assessment is that users and preparers are likely to benefit from the Amendments to IFRS 3, as the information resulting from them will (1) remove inconsistency in the accounting of contingent consideration and therefore reduce complexity; and (2) increase comparability between entities and therefore enhance users' analysis.

Do you agree with this assessment?

X Yes ☐ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

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5 EFRAG's initial assessment is that the benefits to be derived from implementing the Amendments in the EU as described in paragraph 4 above are likely to outweigh the costs involved as described in paragraph 3 above.

Do you agree with this assessment?

X Yes ☐ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

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6 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 agree, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

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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 Standards Interpretations Committee and suggestions from staff or practitioners, and focus on areas of inconsistency in IFRSs or where clarification of wording is required.

2 This Invitation to Comment deals with the amendments made by the International Accounting Standards Boards within the annual improvements project which were included in the standard published on 12 December 2013 *Annual Improvements to IFRSs 2010-2012 Cycle* (henceforth referred to as 'the Amendments') together with the related Basis for Conclusions. The Amendments were issued in draft form in May 2012 in the Exposure Draft ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle*.

3 This Invitation to Comment does not cover the amendments to IFRS 13 *Fair Value Measurement*, as they only affect the basis for conclusions of that Standard, which are not part of IFRS as adopted by the EU. In addition, *Annual Improvements to IFRSs 2010-2012 Cycle* include consequential amendments to IFRS 9 *Financial Instruments*, which has not yet been endorsed in the EU.

4 Set out below is a description of each of the amendments made to current Standards.

IFRS 2 Share-Based Payment: Definition of vesting conditions

5 The Amendments to IFRS 2 *Share-Based Payment* clarify the definition of a vesting condition in IFRS 2 *Share-based Payment* to ensure the consistent classification of conditions attached to a share-based payment plans. In addition, the Amendments to IFRS 2 introduce separate definitions of performance conditions and service conditions.

6 In addition, the Amendments to IFRS 2 clarify some issues that had been raised by constituents in applying current definition of vesting condition in IFRS 2, namely:

(a) *whether a performance target can be set by reference to the price (or value) of another entity (or entities) that is (are) within the group*: the Amendments to IFRS 2 clarify that within the context of a share-based payment transaction between entities in the same group, a performance target can be defined by the price (or value) of the equity instruments of another entity in that group. The definition of market condition was also amended to clarify this.

(b) *whether a performance target that refers to a longer period than the required service period may constitute a performance condition*: the Amendments to IFRS 2 clarify that the period over which the performance target is achieved should not extend beyond the service period. In addition, under the Amendments to IFRS 2 the start of the period of achieving the performance target could begin before the service period, provided that the period over which the performance target is achieved substantially coincides with the service period.

(c) *whether the specified period of service that the counterparty is required to complete can be either implicit or explicit*: the Amendments to IFRS 2 state that a performance condition has an explicit or implicit service requirement and a non-vesting condition does not. Therefore, a performance condition needs to have both a performance target and a service requirement that can be implicit or explicit.

(d) *whether a performance target needs to be influenced by an employee*: the Amendments to IFRS 2 make clear that a performance target needs to be defined by reference to the entity's own operations (or activities) or the price (or value) of its equity instruments (including shares and share options). In addition, the Amendment clarify the definition of performance condition to state that a performance target may relate either to the performance of the entity as a whole or to some part of it, such as a division or an individual employee.

(e) *whether a share market index target may constitute a performance condition or a non-vesting condition*: the Amendments to IFRS 2 clarify that a share market index is a non-vesting condition. Therefore, a share market index does not only reflect the performance of an entity but, instead, also reflects the performance of other entities outside the group.

(f) *whether the definition of performance condition should indicate that it includes a market condition*: the Amendments to IFRS 2 clarify within the definition of performance condition that performance conditions are either market conditions (e.g. the price of the entity's equity instruments) or non-market conditions (e.g. the entity's own operations).

7 The Amendments to IFRS 2 should be applied prospectively to share-based payment transactions for which the *grant date* is on or after 1 July 2014 to avoid undue use of hindsight.

IFRS 3 – Business Combinations: Accounting for contingent consideration in a business combination

8 Paragraph 40 of IFRS 3 *Business Combinations* currently refers both to IAS 32 *Financial Instruments: Presentation* and '*other applicable IFRSs*'. The Amendments to IFRS 3 delete the reference to 'other applicable IFRSs' and thereby require that contingent consideration – that meets the definition of a financial instrument – is classified as either a financial liability or an equity instrument in accordance with IAS 32.

9 The Amendments to IFRS 3 change the classification requirements of IAS 39 *Financial Instruments: Recognition and Measurement* so that contingent consideration is subsequently measured at fair value through profit or loss, and can no longer be measured at amortised cost as previously permitted.

10 The Amendments further clarify that the full change in the fair value of any contingent consideration that is not a financial asset or liability should be recognised in profit or loss.

11 The Amendments to IFRS 3 should be applied prospectively to *business combinations* for which the acquisition date is on or after 1 July 2014; this to avoid the use of hindsight.

IFRS 8 – Operating Segments: Aggregation of operating segments and reconciliation of the total of reportable segments' assets to entity's assets

12 The Amendments to IFRS 8 *Operating Segments* clarify that entities are required to describe those factors that have been considered in aggregating operating segments in accordance with paragraph 12 of IFRS 8.

13 In addition, the Amendments to IFRS 8 clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker in line with the requirements already existing for other mandatory reconciliations (e.g. the total of the reportable segments' liabilities).

14 The Amendments to IFRS 8 apply for annual periods beginning on or after 1 July 2014, with earlier application permitted.

IAS 16 and IAS 38 – Property, Plant and Equipment and Intangible assets: Revaluation method – proportionate restatement of accumulated depreciation

15 Divergence in practice existed in calculating the accumulated depreciation and amortisation respectively for an item of property, plant and equipment and for an intangible asset that were measured using the revaluation method in cases where the residual value, the useful life or the depreciation method had been re-estimated before a revaluation.

16 The Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible assets* eliminate the divergence in practice by amending paragraph 35(a) of IAS 16 and paragraph 80(a) of IAS 38 to state that:

(a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount; and

(b) the accumulated depreciation (amortisation) is calculated as the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses;

17 The Amendments to IAS 16 and IAS 38 apply to all revaluations recognised in annual periods beginning on or after 1 July 2014, with earlier application permitted.

IAS 24 – Related Parties Disclosure: Key management personnel

18 The Amendments to IAS 24 *Related Parties Disclosure* provide relief so that a reporting entity is not required to disclose the components of compensation to key management personnel that is paid through another entity. Instead, amounts incurred in respect of key management personnel compensation or key management personnel services, paid or payable to another entity, shall be separately disclosed in accordance with paragraph 18A of IAS 24.

19 The Amendments to IAS 24 apply for annual periods beginning on or after 1 July 2014, with earlier application permitted.

APPENDIX 2

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 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 meets 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 Article4(3) of Council Directive 2013/34/EU; 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.

2 EFRAG notes that of the eight subjects addressed by the Amendments, the five subjects listed below are clarifications or corrections of existing IFRS:

(a) IFRS 8 *Operating Segments* – Aggregation of operating segments;

(b) IFRS 8 *Operating Segments* – Reconciliation of the total of the reportable segments' assets to the entity's assets;

(c) IAS 16 *Property, plant and Equipment* – Revaluation method, proportionate restatement of accumulated depreciation;

(d) IAS 38 *Intangible Assets* – Revaluation method, proportionate restatement of accumulated amortisation; and

(e) IAS 24 *Related party Disclosures* – Key management personnel.

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

3 Furthermore, the amendments to IFRS 13 *Fair Value Measurement* only affect the basis for conclusions of that Standard – which are not part of IFRS as adopted by the EU – and have not been considered below. In addition, *Annual Improvements to IFRSs 2010-2012 Cycle* include consequential amendments to IFRS 9 *Financial Instruments*, which has not yet been endorsed in the EU.

4 In EFRAG's view, the following two amendments, involve changes to the existing accounting requirements or additional guidance on the implementation of those requirements which could affect the relevance, the understandability, the reliability and the comparability of financial information:

(a) IFRS 2 *Share-based Payment* – Definition of vesting condition; and

(b) IFRS 3 *Business Combinations* – Accounting for contingent consideration in a business combination.

Accordingly, these amendments are discussed below.

IFRS 2 Share-based Payment – Definition of vesting condition

Relevance

5 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.

6 EFRAG considered whether the Amendments to IFRS 2 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.

7 EFRAG notes that *vesting conditions* are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that the amount recognised for goods or services received as consideration for the equity instruments granted is based on the number of equity instruments that vest. Under IFRS 2, an entity recognises an amount for goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest. An entity revises that estimate if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

8 However, *non-vesting conditions* are taken into account in estimating the fair value of the equity instruments granted.

9 The Amendments to IFRS 2 enhance current definition of vesting conditions by adding separate definitions of both performance conditions and service conditions. In addition, the Amendments address several issues raised by constituents that caused implementation difficulties in applying the basic requirements in current IFRS 2.

10 There is a difference in the accounting for changes in estimates of vesting conditions (i.e. reversal into the profit or loss) and non-vesting conditions (i.e. no reversal into the profit or loss). The Amendments to IFRS 2 clarify the definition of these different types of vesting conditions. In EFRAG's view, by improving the guidance on assessing the number of equity instruments and the corresponding fair value of share-based plans is likely to result in estimates that are more accurate at the date of initial recognition of the plan (e.g. grant date). Hence, we believe that the Amendments to IFRS 2 are likely to result in financial information that is likely to have more predictive value.

11 Therefore, EFRAG's overall initial assessment is that the Amendments to IFRS 2 would result in the provision of relevant information; and therefore they satisfy the relevance criterion.

Reliability

12 EFRAG also considered the reliability of the information that will be provided by applying the Amendments to IFRS 2. 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.

13 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

14 In EFRAG's view, the Amendments to IFRS 2 are likely to result in financial information that is reliable because they clarify the different characteristics of each condition that could affect the accounting for a share-based plan.

15 In addition, EFRAG believes that in addressing a number of issues that had caused implementation difficulties the Amendments to IFRS 2 are likely to reduce the risk of material error and bias in the accounting for these types of plans.

16 Accordingly, EFRAG's overall initial assessment is that the Amendments to IFRS 2 satisfy the reliability criterion.

Comparability

17 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.

18 EFRAG has considered whether the Amendments to IFRS 2 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.

19 The Amendments to IFRS 2 result in a more consistent treatment of conditions attached to share-based payment plan than under the current Standard, which does not separately define performance conditions and service conditions. In addition, the Amendments clarify the wording of the Standard to remove some issues that constituents found unclear when applying the current definition of vesting condition in IFRS 2.

20 In EFRAG's view, this will bring consistency in accounting for equity-settled share-based payment, and therefore will increase comparability between entities.

21 However, EFRAG notes that the Amendments to IFRS 2 only apply prospectively to share-based payments with a grant date after 1 July 2014. Therefore, the Amendments to IFRS 2 do not enhance comparability between share-based payment transactions entered into before that date. In addition, to extent that an entity needs to change its accounting policy prospectively as a result of the Amendments to IFRS 2, the comparability between existing and new share-based payment transactions may be reduced. Nonetheless, EFRAG notes that (1) it may be impracticable for an entity to determine the fair value of existing share-based payments without undue use of hindsight and (2) the reduction in comparability will diminish over time.

22 Therefore, on balance, EFRAG's overall initial assessment is that the Amendments to IFRS 2 satisfy the comparability criterion.

Understandability

23 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.

24 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.

25 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 to IFRS 2 is understandable, is whether that information will be unduly complex.

26 The Amendments to IFRS 2 clarify both the definitions of performance and of service conditions and address a number of implementation issues that caused divergence in practice and therefore increased complexity of financial information.

27 In EFRAG view, by addressing these issues the Amendments to IFRS 2 will reduce current complexities in IFRS 2 and therefore will result in financial information that is understandable.

28 Accordingly, in EFRAG's view, the Amendments to IFRS 2 do not introduce any new complexities that may impair understandability and reduce current complexity in applying IFRS2. Therefore, EFRAG's overall initial assessment is that the Amendments to IFRS 2 satisfy the understandability criterion in all material respects.

IFRS 3 Business Combinations – Accounting for contingent consideration in a business combination.

Relevance

29 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.

30 EFRAG considered whether the Amendments to IFRS 3 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.

31 The Amendments to IFRS 3 are to clarify that:

(a) All contingent consideration irrespective of its nature shall be measured at fair value at the date of initial recognition in accordance with paragraph 39 of IFRS 3;

(b) Paragraph 40 of IFRS 3 requires that contingent consideration that is a financial instrument shall be presented either as equity or as financial liability in accordance with IAS 32 *Financial Instruments: Presentation*; and

(c) All contingent consideration irrespective of its nature shall subsequently be measured at fair value through profit and loss.

32 In EFRAG's view, clarifying that all contingent consideration shall be initially and subsequently measured at fair value, results in financial information that has greater predictive value because entities will present updated estimates of the fair value of contingent considerations in their financial statements at each reporting date. In addition, EFRAG believes that these amendments will enhance consistency in subsequent measurement of contingent consideration – both assets and liabilities – arising in a business combination.

33 Therefore, EFRAG's overall initial assessment is that the Amendments to IFRS 3 would result in the provision of relevant information; and therefore they satisfy the relevance criterion.

Reliability

34 EFRAG also considered the reliability of the information that will be provided by applying the Amendments to IFRS 3. 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.

35 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness

36 The Amendments to IFRS 3 remove the reference in current IFRS 3 to '*other applicable IFRSs*'. That reference suggested that entities might be permitted to apply IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in accounting for contingent consideration. In addition, the Amendments to IFRS 3 clarify that all contingent consideration should be initially and subsequently measured at fair value and that all changes in the fair value should be accounted for in profit or loss. EFRAG notes that entities that already account for subsequent changes in contingent consideration at fair value in profit or loss will not be affected by the amendments.

37 However, the Amendments to IFRS 3 introduce some changes for entities that currently do not account for subsequent changes in contingent consideration at fair value in profit or loss. EFRAG believes that the Amendments to IFRS 3 are likely to result – also in these limited circumstances – in financial information that is reliable

as they result in the consistent application of IFRS 3 to new transactions by all entities.

38 Furthermore, the Amendments to IFRS 3 shall be applied prospectively as retrospective application might require the determination of fair value for contingent consideration, which might not have been previously measured at fair value following initial recognition. Therefore, it may be impracticable for an entity to determine the fair value of such contingent consideration without using hindsight. In EFRAG's view, by preventing the undue use of hindsight, the Amendments to IFRS 3 ensure a minimum level of reliability.

39 Therefore, EFRAG's overall initial assessment is that the Amendments to IFRS 3 would raise no concerns about risk of error or bias; and therefore they satisfy the reliability criterion.

Comparability

40 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.

41 EFRAG has considered whether the Amendments to IFRS 3 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.

42 The Amendments to IFRS 3, by deleting the reference to other applicable IFRSs, remove the uncertainties that current language in IFRS 3 had caused in selecting the appropriate guidance in IFRSs to account for contingent consideration that is not a financial instrument. In addition, the consequential amendments to other Standards, namely IAS 37 and IAS 39, further clarify that all relevant guidance on contingent consideration accounting is contained in IFRS 3.

43 In EFRAG's view, this will bring more consistency in accounting for contingent consideration arising in business combinations, and thereby increase comparability.

44 However, EFRAG notes that the Amendments to IFRS 3 only apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014. Therefore, the Amendments to IFRS 3 do not enhance comparability between the accounting for contingent consideration arising on business combinations with an acquisition date before that date. In addition, to extent that an entity needs to change its accounting policy prospectively as a result of the Amendments to IFRS 3, the comparability between the accounting for contingent consideration related to past and future business combinations may be reduced. Nonetheless, EFRAG notes that (1) it may be impracticable for an entity to determine the fair value of existing contingent consideration without undue use of hindsight and (2) the reduction in comparability will diminish over time as contingent consideration is settled.

45 Therefore, EFRAG's overall initial assessment is that the Amendments to IFRS 3 satisfy the comparability criterion.

Understandability

46 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.

47 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.

48 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 to IFRS 3 is understandable, is whether that information will be unduly complex.

49 EFRAG notes that the Amendments to IFRS 3 remove the inconsistencies in current language in IFRS 3 on the applicability of other IFRSs in accounting for contingent consideration arising in a business combination and they will bring all relevant accounting into a single standard. In addition, these amendments clarify the accounting for both initial and subsequent measurement for all types of contingent consideration. In EFRAG's view, this will reduce complexity in selecting the requirements on accounting for contingent consideration.

50 Therefore, in EFRAG's view, the Amendments to IFRS 3 do not introduce any new complexities that may impair understandability. Therefore, EFRAG's overall initial assessment is that the Amendments to IFRS 3 satisfy the understandability criterion in all material respects

True and Fair

51 EFRAG's initial assessment is that the information resulting from the application of the Amendments would not be contrary to the true and fair view principle.

European public good

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

Conclusion

53 For the reasons set out above, EFRAG's initial assessment is that the Amendments satisfy the technical criteria for EU endorsement and EFRAG should therefore recommend their endorsement.

APPENDIX 3

EFRAG'S EVALUATION OF THE COSTS AND BENEFITS OF THE AMENDMENT

General comments

1 EFRAG has also considered whether, and if so to what extent, implementing the amendments included in the Annual Improvements to IFRSs 2010-2012 Cycle ('the Amendments') in the EU might result in incremental costs for preparers and/or users, and whether those costs are likely to be exceeded by the benefits to be derived from their adoption.

2 EFRAG started its assessment of the costs and benefits of implementing all the changes to existing standards included in the Amendments by considering whether they were likely to be any measureable costs involved for preparers – including first-time adopters – or users in applying them.

3 EFRAG's initial assessment is that there will be a year one cost for preparers in reading and understanding the Amendments to IFRS 8, to IAS 16, to IAS 24 and to IAS 38, but that cost will be insignificant. EFRAG's initial assessment is also that all requirements included in these amendments will not involve any measurable change in costs for preparers or users and that the benefits to be derived from implementing these amendments are likely to outweigh the costs involved.

4 Based on EFRAG's assessment, the application of the Amendments to IFRS 2 and to IFRS 3 will have a cost and/or benefit impact on preparers and/or users of financial information because those amendments change somehow current accounting practice; accordingly EFRAG has performed a specific assessment on the implementation of those two amendments.

Note to constituents

Annual Improvements to IFRSs 2010-2012 Cycle include consequential amendments to IFRS 9 *Financial Instruments*, which has not yet been endorsed in the EU. Those consequential amendments are not addressed in this Draft Endorsement Advice and will be considered together with the related requirements in IFRS 9.

IFRS 2 Share-based Payment – Definition of vesting condition

Cost for preparers

5 EFRAG has carried out an initial assessment of the cost implications for preparers resulting from the Amendments to IFRS 2.

6 EFRAG expects that preparers will incur in one-off cost mainly from:

(a) reading and familiarising with the new requirements;

(b) review of share-based payment plans under which new grants are still being made; and

(c) applying the new requirements to share-based payment transactions for which the grant date is on or after 1 July 2014.

7 In addition, EFRAG believes that the Amendments to IFRS 2 are not likely to result in any significant increase of ongoing costs for preparers.

8 Overall, EFRAG's initial assessment is that the implementation of the Amendments to IFRS 2 is likely to result in some one-off costs for preparers while we believe that complying with these amendments will not result in increased ongoing costs to preparers (i.e. they are likely to be cost neutral after their initial implementation).

Costs for users

9 EFRAG has carried out an initial assessment of the cost implications for users resulting from the Amendments to IFRS 2.

10 Overall, EFRAG's initial assessment is that the implementation of the Amendments to IFRS 2 is not likely to result in one-off costs and ongoing costs to users (i.e. they are likely to be cost neutral after the initial implementation).

Benefits for preparers and users

11 EFRAG has carried out an initial assessment of the benefits for users and preparers resulting from the Amendments to IFRS 2.

12 The objectives of the Amendments to IFRS 2 are to clarify the definition of a vesting condition in IFRS 2 to ensure the consistent classification of conditions attached to a share-based payment as the standard does not separately define a performance condition or a service condition, but instead describes both concepts within the definition of vesting conditions.

13 In addition, these amendments aim to clarify a number of implementation issues that have been raised by entities applying current guidance in IFRS 2. EFRAG believes that clarifying the definition of vesting conditions will reduce the operational burden for preparers in applying the requirements in IFRS 2.

14 EFRAG believes that users will benefit from these amendments as the information resulting from them will increase comparability between entities for new share-based payments granted and therefore will enhance their analysis while reducing the cost of interpreting and comparing financial data.

15 Overall, EFRAG's initial assessment is that both preparers and users are likely to benefit from the Amendments to IFRS 2, as they are likely to reduce the ongoing cost of both preparing and interpreting financial information on share-based plans.

IFRS 3 Business Combinations – Accounting for contingent consideration in a business combination.

Cost for preparers

16 EFRAG has carried out an initial assessment of the cost implications for preparers resulting from the Amendments to IFRS 3.

17 EFRAG believes that preparers that are already accounting for subsequent changes in the fair value of contingent consideration in profit or loss are likely to incur in insignificant costs in implementing the Amendments to IFRS 3. In addition, EFRAG believes that some preparers may incur in one-off costs in the limited circumstances if they were not accounting for changes in contingent consideration at fair value in profit or loss. Those preparers should implement processes to assess fair value at each reporting date to comply with these amendments.

18 However, EFRAG notes that prospective application of these amendments are likely to provide those entities that applied other IFRSs to measure contingent consideration with a relief that is likely to reduce significantly one-off costs of implementing the enhanced requirements.

19 Regarding ongoing costs, EFRAG notes that the Amendments to IFRS 3 clarify that all subsequent changes in fair values should be accounted in the profit or loss statement. In EFRAG's view, this will reduce complexity for preparers in accounting for contingent considerations.

20 Overall, EFRAG's initial assessment is that the Amendments to IFRS 3 are likely to result both in insignificant one-off and ongoing costs for preparers related to implementation of these amendments.

Costs for users

21 EFRAG has carried out an initial assessment of the cost implications for users resulting from the Amendments to IFRS 3.

22 In EFRAG's view, the Amendments to IFRS 3 are likely to result in one-off costs to understand the impact of the change on their analysis. In addition, EFRAG believes that the Amendments to IFRS 3 are not likely to result in increased ongoing costs for users.

23 Overall, EFRAG's initial assessment is that the Amendments to IFRS 3 are likely to result in insignificant costs for users.

Benefits for preparers and users

24 EFRAG has carried out an initial assessment of the benefits for users and preparers resulting from the Amendments to IFRS 3.

25 The objectives of the Amendments to IFRS 3 are to clarify that both at initial recognition and at subsequent dates contingent considerations, irrespective of their nature (e.g. financial, non-financial), should be measured at fair value. In addition these amendments clarify that if contingent consideration is a financial liability, IAS 32 should be analysed in order to present is either as a financial liability or as equity. Accordingly, these amendments result in eliminating existing conflicts between existing Standards.

26 EFRAG notes that removing current reference to other applicable IFRSs clarifies that only guidance in IFRS 3 should be applied in accounting for contingent consideration that arises in a business combination. Therefore, we believe that both users and preparers will benefit from the outcomes of these amendments as they reduce complexity in accounting for contingent consideration and they are likely to result in information that is comparable and understandable.

27 In addition, requiring that all subsequent changes in fair value of contingent considerations shall be accounted into the profit or loss statement will benefit:

(a) Preparers, as the cost to process and report into their books the effects of these transactions is likely to decrease; and

(b) Users, as the cost of assessing the effects of contingent considerations is likely to decrease because all changes into the fair value of a contingent considerations will be presented in the profit or loss statement.

28 Finally, requiring prospective application of the requirements will provide relief to those preparers that had applied other applicable IFRSs in the accounting for contingent consideration.

29 Overall, EFRAG's initial assessment is that users and preparers are likely to benefit from the Amendments to IFRS 3, as the information resulting from them will (1) remove inconsistency in the accounting of contingent consideration and therefore reduce complexity; and (2) increase comparability between entities and therefore enhance users' analysis.

Conclusion

30 EFRAG's overall initial assessment is that the overall benefits of the Amendments are likely to outweigh costs associated with applying them.