EFRAG
European Financial Reporting Advisory Group

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

6 June 2012

Dear Mr Faull,

Adoption of Government Loans (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 Government Loans (Amendments to IFRS 1) ('the Amendments'), which were issued by the IASB on 13 March 2012. It was issued as an Exposure Draft in October 2011 and EFRAG commented on that draft.

The Amendments deal with loans received from governments at a below market rate of interest and their objective is to give first-time adopters of IFRSs relief from full retrospective application on transition to IFRSs. This relief is the same as the one which was given to existing preparers of IFRS financial statements in 2008 when IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* was amended.

The Amendments become effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

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:

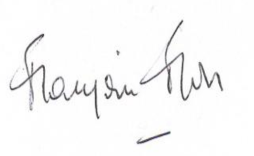
- are not contrary to the principle of 'true and fair view' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

- 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 in the Appendix.

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

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on Government Loans (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 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.

Relevance

2 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.

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

4 EFRAG believes that not requiring full retrospective application of IFRS to the accounting government loans may reduce the relevance of financial information in some circumstances (e.g. when government loans were previously measured at nil). However, full retrospective application might require an entity to apply hindsight

if it has to derive a fair value that needs significant unobservable inputs, which would also reduce the relevance of financial information.

5 EFRAG believes that by permitting retrospective application of IFRS 9 (or IAS 39) when the information needed to do so was obtained at the initial accounting of the loan, the Amendments enable entities to avoid an unnecessary reduction in the relevance of financial information.

6 While EFRAG believes that the relevance of financial information might be reduced in some circumstances, 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.

7 Accordingly, EFRAG's overall assessment is that the Amendments would result in the provision of relevant information; and therefore they satisfy the relevance criterion.

Reliability

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

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

10 The Amendments extend a relief, which was already available to entities already reporting under IFRS, to first-time adopters of IFRS. In addition, the Amendments only permit retrospective application provided that the information needed to apply the general recognition and measurement requirements was obtained at the inception of the loan. By preventing the undue use of hindsight, the Amendments ensure a minimum level of reliability.

11 When government loans were previously measured at nil, it may not be possible to apply IFRS 9 (or IAS 39) to the measurement of such loans after the date of transition to IFRS. In the limited circumstances where this occurs, information may not be reliable.

12 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.

Comparability

13 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.

14 EFRAG has considered whether the Amendments 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.

15 The Amendments provides an exception to the retrospective application of IFRS in the accounting for government loans at below-market rate of interest and thus it adversely affects the comparability of financial statements. However, EFRAG notes that by permitting retrospective application of IFRS 9 (or IAS 39) when the information needed to do so was obtained at the initial accounting of the loan, the Amendments enable entities to avoid an unnecessary reduction in the comparability of financial information.

16 The IASB decided to permit retrospective application of IAS 20 rather than require it, as the latter approach could result in an onerous search to determine whether the information had been obtained when initially accounting for loans that were received many years ago. EFRAG believes that the option to apply IAS 20 retrospectively could reduce the comparability of financial information.

17 However, EFRAG believes that the Amendments will facilitate the adoption of IFRS by more entities and, consequently, the comparability of financial statements will be enhanced.

18 On balance, 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 that may impair understandability. Therefore, EFRAG's overall assessment is that the Amendments satisfy the understandability criterion in all material respects.

True and Fair

23 EFRAG 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.

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.