

Jörgen Holmquist
Director General
European Commission
Directorate General for the Internal Market
1049 Brussels

30 March 2009

Dear Mr. Holmquist

Adoption of the Revised Version of IFRS 1 *First-time Adoption of International Financial Reporting Standards*

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 the adoption of the revised IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Restructured IFRS 1), which was published in November 2008. The restructuring was proposed in an exposure draft on which EFRAG commented.

The Restructured IFRS 1 does not contain any technical changes to IFRS; rather it changes the order of the content of the standard to more easily accommodate future amendments that might become necessary. The Restructured IFRS 1 also removes from the standard outdated transition guidance and some minor wording changes. The Restructured IFRS 1 will apply for entities transitioning to IFRS for the first time for annual periods beginning on or after 1 July 2009.

EFRAG has carried out an evaluation of Restructured IFRS 1. As part of that process, EFRAG issued a draft assessment of the Restructured IFRS 1 against the EU endorsement criteria 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 Restructured IFRS 1 and has concluded that it meets the requirements of Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- it 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 Endorsement Advice Letter on Revised Version of IFRS 1

For the reasons given above, EFRAG believes that it is in the European interest to adopt the Restructured IFRS 1 and, accordingly, EFRAG recommends its adoption. EFRAG's reasoning is explained in the attached 'Appendix – Basis for Conclusions'.

On behalf of the members 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

Stig Enevoldsen
EFRAG, Chairman

Appendix Basis for Conclusions

This appendix sets out the basis for the conclusions reached and for the recommendation made by EFRAG on the Revised IFRS 1 First-time Adoption of International Reporting Standards.

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.

- 1 Compared to the previous version of IFRS 1 *First-time Adoption of International Reporting Standards*, the revised IFRS 1 (Restructured IFRS 1) repositions some paragraphs in existing IFRS 1 and omits some paragraphs that are now outdated. Some wording changes have also been made. However, the IASB's intention in making these changes has been to make no changes to what the standard requires.
- 2 Therefore, when evaluating the Restructured IFRS 1, EFRAG considered the following questions:
 - (a) Has any of the changes made had an effect on the requirements of IFRS 1?
 - (b) If the answer to that question is 'no', does the Restructured IFRS 1 meet the criteria for EU endorsement?
- 3 Having formed tentative views on these issues and prepared a draft assessment, EFRAG issued that draft assessment on 27 January 2009 and asked for comments on it by 13 March 2009. EFRAG has considered all the comments received, and all were supportive of EFRAG's tentative views.

Has any of the changes made had an effect on IFRS 1's requirements?

- 4 EFRAG considered whether the changes made to existing IFRS 1 have had an effect on the financial reporting requirements by considering first the restructuring amendments (and wording changes consequential to those restructuring amendments), then the omission of various paragraphs deemed to be redundant, then finally the other amendments made.
- 5 In EFRAG's view, the restructuring amendments (and wording changes consequential to those restructuring amendments) will have no effect on the financial reporting requirements of the standard. Furthermore, EFRAG agrees that the paragraphs that have been omitted from the Restructured IFRS 1 were indeed redundant. Finally,

EFRAG believes that the other changes made are cosmetic and will have no impact on the standard's requirements.

Does the Restructured IFRS 1 meet the criteria for EU endorsement?

- 6 Since the Restructured IFRS 1 does not change the requirements of IFRS 1, in EFRAG's view a detailed evaluation of the revised standard is not necessary. Instead, bearing in mind that EFRAG assessed the original version of IFRS 1 when it was issued and concluded that it met the EU endorsement criteria, and that EFRAG carried out an assessment and reached the same conclusion about each of the changes subsequently made to the standard, EFRAG believes it is appropriate to limit its technical assessment of the Restructured IFRS 1 to asking whether there is any evidence from the application of the existing standard to suggest that EFRAG's assessment of the original standard and subsequent revisions needs to be revised.
- 7 In other words, EFRAG has considered the application of the existing IFRS 1 to evaluate whether the Restructured IFRS 1 meets the requirements of the European Parliament and of the Council on the application of international accounting standards and therefore whether the Restructured IFRS 1:
 - (a) is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
 - (b) 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 Restructured IFRS 1.

- 8 EFRAG is not aware of any evidence from the application of the original IFRS 1 or subsequent amended versions that would suggest EFRAG's prior assessment needs to be revised. IFRS 1 inevitably involves compromising comparability and the requirements of IFRS generally in the short-term by allowing the—often optional—implementation of practical alternatives to the 'usual' IFRS requirements on initial application of IFRS, but by doing that it becomes possible for more entities to adopt IFRS—and that means more comparability globally and better financial reporting generally in the longer-term.
- 9 EFRAG is not aware of any reason to be concerned that the way this balance has previously been struck in IFRS 1 has created problems overall in terms of relevance, reliability, understandability or comparability. EFRAG is also not aware of any reason to believe that that balance is contrary to the true and fair view principle or is not in the European interest.

Conclusion

- 10 For the reasons set out above, EFRAG has concluded that the Restructured IFRS 1 satisfies the criteria for EU endorsement and that EFRAG should recommend its endorsement.