EFRAG
European Financial Reporting Advisory Group

Jonathan Faull
Director General, Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Brussels

4 February 2015

Dear Mr Faull

Adoption of *Annual Improvements to IFRSs 2012 − 2014 Cycle*

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 *Annual Improvements to IFRSs 2012-2014 Cycle* ('the Amendments'), which was issued by the IASB on 25 September 2014. It was issued as an Exposure Draft in December 2013 and EFRAG commented on that draft.

The objective of the Amendments is to address non-urgent, but necessary issues discussed by the IASB during the project cycle that began in 2012 on areas of inconsistency in IFRSs or where clarification of wording is required.

The Amendments become effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted, however entities shall disclose that fact.

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

Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments in the EU, EFRAG assesses that adopting the Amendments is conducive to the European public good and, accordingly, EFRAG recommends their adoption. EFRAG's reasoning is explained in the attached 'Appendix 2 - Basis for Conclusions' and 'Appendix 3 - EFRAG's Evaluation of the Costs and Benefits of the Amendments'.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Roger Marshall
Acting President of the EFRAG Board

APPENDIX 1

A SUMMARY OF THE AMENDMENTS

Background

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 In December 2013, the IASB published for comment the Exposure Draft ED/2013/11 *Annual Improvements to IFRSs: 2012-2014 Cycle* and after discussing the feedback received from constituents it decided to proceed and published the *Annual Improvements to IFRSs: 2012 − 2014 Cycle* together with the related Basis for Conclusions on 25 September 2014.

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

What has changed and when do the Amendments become effective?

<u>IFRS 5 *Non-current Assets held for Sale and Discontinued Operations*: Change of Disposal Method</u>

4 The Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* clarify that if an entity reclassifies an asset (or disposal group) directly from being 'held for sale' to being 'held for distribution to owners' (or vice versa) then the change in classification is considered a continuation of the original plan of disposal. Therefore, no re-measurement gain or loss is accounted for in the statement(s) of profit or loss or other comprehensive income due to such change.

5 Furthermore, the Amendments to IFRS 5 clarify that an entity shall not change the date of classification. This, however, does not preclude an extension of the period required to complete a sale or a distribution to owners, provided that the relevant conditions in IFRS 5 are still met.

6 Finally, the Amendments to IFRS 5 clarify that current requirements in IFRS 5 should be applied when an entity reclassifies an asset (or disposal group) from being held for distribution to owners, or vice versa. Therefore entities:

(a) shall measure the non-current asset classified both as held for sale and for distribution following the criteria provided in IFRS 5; and

(b) recognise any reduction or increase in the fair value less costs to sell/costs to distribute of the non-current asset in accordance with the requirements in IFRS 5.

7 These Amendments to IFRS 5 apply prospectively to changes in a method of disposal that occur in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

<u>IFRS 7 *Financial Instruments: Disclosures*: Servicing contracts</u>

8 The Amendments to IFRS 7 *Financial Instruments: Disclosures*: Servicing contracts clarify – by adding additional application guidance – when servicing contracts

constitute continuing involvement for the purposes of applying the disclosure requirements in paragraph 42C of IFRS 7.

9 The Amendments to IFRS 7 apply retrospectively for annual periods beginning on or after 1 January 2016. However, an entity need not apply these amendments for any period presented that begins before the annual period for which the entity first applies them. Earlier application is permitted.

IFRS 7 *Financial Instruments: Disclosures*: Applicability of the Amendments to IFRS 7 on offsetting financial assets and financial liabilities to condensed interim financial statements

10 The Amendments to IFRS 7 clarify that the additional disclosures required that were introduced in December 2011 by the Amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* are not required in interim periods after the year of their initial application unless IAS 34 *Interim Financial Reporting* requires those disclosures.

11 The Amendments to IFRS 7 apply retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

12 Consequential Amendments are also made to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

IAS 19 Employee Benefits: Discount rate: regional market issue

13 The Amendments to IAS 19 *Employee Benefits* clarify that the high quality corporate bonds used to estimate the discount rate should be determined considering the same currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds should be assessed at currency level rather than at country level. If such a deep market does not exist, the market yield on government bonds denominated in that currency shall be used.

14 The Amendments to IAS 19 should be applied for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

15 An entity shall apply the Amendments to IAS 19 from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies the Amendments. Any initial adjustment arising from the application of the Amendments to IAS 19 shall be recognised in retained earnings at the beginning of that period.

IAS 34 *Interim Financial Reporting*: Disclosure of information 'elsewhere in the interim financial report'

16 The Amendments clarify that the 'other disclosures' required by paragraph 16A of IAS 34 shall be presented either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or a risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time.

17 The Amendments to IAS 34 also clarify that if users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete.

18 The Amendments to IAS 34 apply retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

APPENDIX 2

BASIS FOR CONCLUSIONS

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 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 4 (3) of Council Directive 2013/34/EU; and

(b) meet the criteria of relevance, reliability, comparability, and understandability 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 not be conducive to the European public good to adopt the Amendments.

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

(a) IFRS 7 *Financial Instruments: Disclosures:* Servicing contracts;

(b) IFRS 7 *Financial Instruments: Disclosures:* Applicability of the Amendments to IFRS 7 on offsetting financial assets and financial liabilities to condensed interim financial statements; and

(c) IAS 34 *Interim Financial Reporting:* Disclosure of information 'elsewhere in the interim financial report'.

3 In EFRAG's view, the above amendments to current Standards 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. These amendments are not assessed individually in this appendix.

4 In EFRAG's view, the following two amendments to current Standards, involve changes to the existing accounting requirements or additional guidance on the implementation of those requirements which could affect the relevance, the reliability, the understandabilityand the comparability of financial information. Furthermore, we note that these amendments have been subject to debate (evidenced by the comments EFRAG has received in the course of its due process):

(a) IFRS 5 *Non-current Assets held for Sale and Discontinued Operations:* Change of Disposal Method; and

(b) IAS 19 *Employee Benefits*: Discount rate: regional market issue.

Accordingly, these amendments are assessed below.

IFRS 5 Non-current Assets held for Sale and Discontinued Operations: Change of Disposal Method

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 5 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 believes that the Amendments to IFRS 5 will result in information that is relevant because they avoid the undue recognition of gains and losses on the occurrence of a change in the way an entity intends to dispose of non-current assets. In EFRAG's view, this preserves trends in reported financial performance.

8 Therefore, EFRAG's overall assessment is that the Amendments to IFRS 5 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 to IFRS 5. 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 In EFRAG's view, the Amendments to IFRS 5 are likely to result in financial information that is reliable because entities will not modify the accounting for this type of reclassifications in plans where the economics of these transactions do not change. In our view, the Amendments to IFRS 5 result in information that portrays the substance of these transactions (i.e. the fact that the non-current asset is likely

to be disposed of) rather than the form in which the disposal occurs (i.e. outright sale or distribution to owners) and therefore they ensure that the accounting effects faithfully represent what they purport to portray.

12 Furthermore, EFRAG believes that these Amendments to IFRS 5 are likely to result in reliable information because they improve existing guidance on changes to a plan of sale by:

(a) clarifying that the entity shall not cease to classify the asset (or disposal group) as held for sale in circumstances where it reclassifies it directly from being held for sale to being held for distribution, or vice versa;

(b) addressing the lack of guidance in circumstances when an asset no longer meets the criteria for held for distribution to owners (without meeting the held-for-sale criteria); and

(c) clarifying that an entity should cease to apply held-for-distribution accounting in the same way as it ceases to apply the held-for-sale accounting when an asset (or a disposal group) no longer meets the held-for-sale criteria.

13 Accordingly, EFRAG's overall assessment is that the Amendments to IFRS 5 would raise no concerns about risk of error or bias; and therefore they satisfy the reliability criterion.

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 to IFRS 5 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 The Amendments to IFRS 5 result in consistent accounting treatment in circumstances where an entity reclassifies an asset (or a disposal group) directly from being held for sale to being held for distribution, or vice versa. This will ensure that economically similar transactions are likely to be accounted for similarly.

17 Furthermore, EFRAG believes that the financial information that results from these Amendments to IFRS 5 are comparable because:

(a) The Amendments to IFRS 5 provide guidance in an area where current IFRSs were silent and therefore reduce diversity in practice; and

(b) They will ensure that plans for sale or distribution will be treated similarly irrespective of their form.

18 EFRAG believes that the Amendments to IFRS 5 might result in financial information that is not comparable in the rare circumstances where an entity recognises gains or

losses from this type of changes in a plan that occurs before the effective date of the Amendments. However, we note that:

(a) Entities are entitled to early adopt these amendments; and

(b) Comparability is likely to be affected for a limited period of time given that IFRS 5 generally requires that disposals should occur within a twelve months period.

19 Therefore, EFRAG's overall assessment is that the Amendments to IFRS 5 satisfy the comparability criterion.

Understandability

20 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.

21 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.

22 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 5 is understandable, is whether that information will be unduly complex.

23 In EFRAG's view, the Amendments to IFRS 5 do not introduce any new complexities that may impair understandability. Therefore, EFRAG's overall assessment is that the Amendments to IFRS 5 satisfy the understandability criterion in all material respects.

IAS 19 Employee Benefits: Discount rate: regional market issue

Relevance

24 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.

25 EFRAG considered whether the Amendments to IAS 19 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.

26 EFRAG notes that the Amendments to IAS 19 require entities to assess at currency level (a) the existence of a deep market on high quality corporate bonds; and (b) the market yield of government bonds.

27 In EFRAG's view, these Amendments to IAS 19 result in financial information that is relevant in circumstances where entities:

(a) had already determined that the discount rate assessed at currency level was appropriate because the currency and term of the corporate bonds or government bonds were consistent with the currency and estimated term of the post-employment benefit obligations; or

(b) operate in a country where a deep market for high quality corporate bonds and government bonds does not exist and existing requirements in IAS 19 permits them to determine the discount rate at a currency level (i.e. Euro area).

28 In EFRAG's view, by improving current guidance in IAS 19, these amendments are likely to result in financial information that has more predictive value.

29 Therefore, EFRAG's overall assessment is that, on balance, the Amendments to IAS 19 satisfy the relevance criterion.

Reliability

30 EFRAG also considered the reliability of the information that will be provided by applying the Amendments to IAS 19. 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.

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

32 In EFRAG's view, by improving existing guidance in IAS 19 these amendments are expected to reduce subjectivity in determining the discount rate to measure post-employment benefit obligations when an entity operates in a currency area because entities operating in countries where a deep market for both high quality corporate bonds and government bonds does not exist found it difficult to apply the current guidance in IAS 19.

33 Accordingly, EFRAG's overall assessment is that the Amendments to IAS 19 raise no concerns about risk of error or bias; and therefore they satisfy the reliability criterion.

Comparability

34 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.

35 EFRAG has considered whether the Amendments to IAS 19 result in:

(a) transactions that are economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they are similar.

36 EFRAG believes that the Amendments to IAS 19 will contribute to consistent application of current guidance in IAS 19; therefore, they will result in financial information that is comparable because we believe that these Amendments will reduce uncertainties that current language in IAS 19 has caused in determining the appropriate discount rate when entities operate in a currency area.

37 Furthermore, EFRAG considers that the initial application of these Amendments also results in financial information that is comparable as entities recognise any initial adjustment arising from their application in retained earnings at the beginning of the earliest comparative period presented in the financial statements. In EFRAG's view,

this permits users to isolate the effects of the first application of these Amendments and provides comparability between the periods reported in the financial statements.

38 Therefore, EFRAG's overall assessment is that the Amendments to IAS 19 satisfy the comparability criterion.

Understandability

39 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.

40 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.

41 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 IAS 19 is understandable, is whether that information will be unduly complex.

42 Accordingly, in EFRAG's view, the Amendments to IAS 19 do not introduce any new complexities that may impair understandability and reduce current complexity in applying IAS 19. Therefore, EFRAG's overall assessment is that the Amendments to IAS 19 satisfy the understandability criterion in all material respects.

True and Fair

43 EFRAG's 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

44 As explained in Appendix 3, EFRAG has concluded that benefits of the adoption of the Amendments outweigh the costs involved. Furthermore, in the course of its assessment, EFRAG has not identified any adverse effect of the Amendments and has therefore concluded that, overall, adopting them was conducive to the European public good.

Conclusion

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

APPENDIX 3

EFRAG's EVALUATION OF THE COSTS AND BENEFITS OF THE AMENDMENTS

Introduction

1 As part of assessing whether the Amendments would be conducive to the European public good, EFRAG has carried out and submitted to public consultation an analysis of costs and benefits that would be derived from adopting them.

EFRAG's initial analysis of the costs and benefits of the Amendments

2 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing the Amendments, both in year one and in subsequent years.

3 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.

4 EFRAG's initial assessment was that for the amendments to IFRS 7 and IAS 34 there would be a one-off cost for preparers in reading and understanding these amendments, but that cost will be insignificant. EFRAG's initial assessment is also that these amendments will not involve any significant 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.

5 Based on EFRAG's assessment, the application of the amendments to IFRS 5 and IAS 19 will have a cost and/or benefit impact on preparers and/or users of financial information because those amendments change current accounting practice; accordingly EFRAG has performed a specific assessment on the implementation of the amendments to IFRS 5 and IAS 19.

6 The results of EFRAG's initial assessment can be summarised as follows:

Costs

(a) *IFRS 5 Non-current Assets held for Sale and Discontinued Operations*: Change of Disposal Method*:* Overall, EFRAG's initial assessment was that the Amendments to IFRS 5 are likely to result in both some insignificant one-off costs and ongoing costs for preparers while users are likely to incur only insignificant one-off costs; and

(b) *IAS 19 Employee Benefits:* Discount rate: Regional market issue: Overall, EFRAG's initial assessment was that the Amendments to IAS 19 are likely to result in insignificant one-off and ongoing costs both for preparers and users.

Benefits

(c) *IFRS 5 Non-current Assets held for Sale and Discontinued Operations*: Change of Disposal Method*:* Overall, EFRAG's initial assessment was that both preparers and users are likely to benefit from the Amendments to IFRS 5 as they are likely to reduce the ongoing cost of both preparing and interpreting financial information when this type of change in plan occurs; and

(d) *IAS 19 Employee Benefits:* Discount rate: Regional market issue: Overall, EFRAG's initial assessment was that users and preparers are likely to benefit from the Amendments to IAS 19 as the information resulting from them will reduce divergence in practice and increase comparability in applying current requirements in IAS 19.

7 EFRAG published its initial assessment and supporting analysis on 24 October 2014. It invited comments on the material by 24 November 2014. In response, EFRAG received ten comment letters. Eight respondents agreed with EFRAG's assessment of the benefits of implementing the Amendments and the associated costs involved for users and preparers. One respondent commented on the EFRAG's initial assessment on costs and benefits and one other respondent did not comment specifically on EFRAG's initial assessment of the costs and benefits of implementing the Amendments in the EU, but these two respondents supported EFRAG's recommendation that the Amendments be adopted for use in Europe.

EFRAG's final analysis of the costs and benefits of the Amendments

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

9 EFRAG's assessment is that for the amendments to IFRS 7 and IAS 34 there would be a one-off cost for preparers in reading and understanding these amendments, but that cost will be insignificant. EFRAG's assessment is also that these amendments will not involve any significant 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.

10 Based on EFRAG's assessment, the application of the amendments to IFRS 5 and IAS 19 will have a cost and/or benefit impact on preparers and/or users of financial information because those amendments change current accounting practice; accordingly EFRAG has performed a specific assessment on the implementation of the amendments to IFRS 5 and IAS 19.

IFRS 5 Non-current Assets held for Sale and Discontinued Operations – Change of disposal method

Cost for preparers

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

12 EFRAG expects that preparers will incur a one-off cost mainly from reading and familiarising themselves with the new requirements. EFRAG believes that the Amendments to IFRS 5 are not likely to result in any significant increase in ongoing costs because they only clarify how the current requirements in the existing Standard apply.

13 Therefore, EFRAG's assessment is that the implementation of the Amendments to IFRS 5 is likely to result in some insignificant one-off and ongoing costs for preparers.

Costs for users

14 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments to IFRS 5.

15 EFRAG notes that users may incur some costs in circumstances where prospective application of these Amendments may lead to similar transactions that are accounted

for differently in periods prior the their initial application. However, EFRAG believes that these costs are not significant because current disclosures requirements in paragraph 42 of IFRS 5 may provide them with sufficient financial information on the change in plan. Furthermore, given the basic principles in IFRS 5, EFRAG considers that this reduction in comparability is resolved within the short period (i.e. twelve months) in which the disposal is likely to occur.

16 EFRAG's assessment is that the implementation of the Amendments to IFRS 5 is not likely to affect ongoing costs to users and that they are likely to result in one-off costs that are not significant.

<u>Benefits for preparers and users</u>

17 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments to IFRS 5.

18 The objectives of the Amendments to IFRS 5 are to clarify that an entity should not cease to classify an asset (or disposal group) as held for sale in circumstances where an entity reclassifies the asset (or disposal group) directly from being held for sale to being held for distribution (or vice versa).

19 In EFRAG's view, the Amendments to IFRS 5 will reduce complexities when this type of change in plans occurs because they are likely to ease the process of selecting and applying the accounting treatment that best represents the substance and the economics of these transactions.

20 EFRAG believes that users will benefit from these amendments as the information resulting from them will increase comparability between entities when a change in plan occurs and therefore will enhance their analysis while reducing the cost of interpreting and comparing financial data.

21 Furthermore, these amendments avoid disruptions in an entity's performance trends because they avoid the undue recognition of gains and losses. In EFRAG's view, this also results in benefits for users of financial statements.

22 EFRAG's assessment is that both preparers and users are likely to benefit from the Amendments to IFRS 5, as they are likely to reduce the ongoing cost of both preparing and interpreting financial information when this type of change in plan occurs.

IAS 19 Employee Benefits – Discount rate: regional market issue

<u>Cost for preparers</u>

23 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments to IAS 19.

24 EFRAG expects that preparers will incur insignificant one-off cost mainly from reading and familiarising themselves with these amendments. Furthermore, preparers may incur initial costs in assessing whether these amendments may have any effects on existing post-employment benefits obligations.

25 EFRAG believes that the implementation of the Amendments to IAS 19 will not result in additional ongoing costs for preparers as they are not modifying the existing guidance in IAS 19 on selecting and applying discount rates to measure post-employment benefits obligations.

26 Overall, EFRAG's assessment is that the Amendments to IAS 19 are likely to result both in insignificant one-off and ongoing costs for preparers related to implementation of these Amendments.

Costs for users

27 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments to IAS 19.

28 In EFRAG's view, the Amendments to IAS 19 are likely to result in one-off costs for users to understand the impact of the change on their analyses. However, EFRAG believes that the Amendments to IAS 19 are not likely to result in increased ongoing costs for users.

29 Overall, EFRAG's assessment is that the Amendments to IAS 19 are likely to result in insignificant costs for users.

Benefits for preparers and users

30 EFRAG has carried out an assessment of the benefits for preparers and users resulting from the Amendments to IAS 19.

31 The Amendments to IAS 19 clarify the current requirements in the Standard for determining the discount rate and the implications for regional market areas sharing the same currency. Therefore, EFRAG believes that both preparers and users will benefit from the outcomes of these Amendments because they improve consistency in measuring post-employment benefits obligations and, therefore, are likely to reduce diversity in practice.

32 In addition, EFRAG believes that these amendments will reduce the administrative burden in determining discount rates for post-employment benefit obligations when an entity operates both:

(a) in a country where a deep market for high quality corporate bonds does not exist; and

(b) in a currency area where a deep market for the instruments in (a) does exist.

33 Furthermore, EFRAG considers that the Amendments to IAS 19 are likely to result in benefits for preparers and users:

(a) Users will benefit because the financial information that results from these amendments are more comparable; and the transition requirements will enable them to identify any effects from the initial application of these amendments.

(b) Preparers will benefit from the clarification that the assessment of the deepness of the market for high quality corporate bonds and government bonds should be made at currency level.

34 Overall, EFRAG's assessment is that users and preparers are likely to benefit from the Amendments to IAS 19, as the information resulting from them will reduce divergence in practice and increase comparability in applying current requirements in IAS 19.

Conclusion

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