EFRAG

European Financial Reporting Advisory Group

DRAFT ENDORSEMENT ADVICE AND EFFECTS STUDY REPORT ON ANNUAL IMPROVEMENTS TO IFRSs 2009-2011 CYCLE

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS

Comments should be sent to commentletters@efrag.org or uploaded via our website by 25 July 2012

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the *Annual Improvements to IFRSs 2009-2011 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.

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:

CNC - Comissão de Normalização Contabilística

(b) Are you a:

☐ Preparer ☐ User ☒ Other (please specify)

Public Authority

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

National Standard Setter

(d) Country where you are located:

Portugal

(e) Contact details including e-mail address:

cecnc@igf.min-financas.pt

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?

☒ 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, 7, 10, 16 and 19 of Appendix 3. To summarise, EFRAG's initial assessment on the Amendments is that:

(a) *Repeated application of IFRS 1*: the Amendments to IFRS 1 are likely to reduce the costs for preparers to re-adopt IFRSs while they will not result in significant costs to users;

(b) *Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs*: the Amendments to IFRS 1 are likely to reduce the one-off costs at the date of transition to IFRSs and do not impact the ongoing costs of applying IFRSs for preparers, while they will not significantly affect the costs for users.

Do you agree with this assessment?

☒ 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?

4 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraphs 3, 12, 13, 21 and 22 of Appendix 3. To summarise, EFRAG's initial assessment is that:

(a) *Repeated application of IFRS 1*: the Amendments to IFRS 1 bring benefit to first-time adopters by reducing the costs of transition to IFRS while there is no impact on entities that already apply IFRS. In addition, EFRAG believes that users will benefit from the Amendments to IFRS 1 as they permit the retrospective application of IFRSs in circumstances, thus enhancing the reliability and the quality of financial information.

(b) *Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs*: the Amendments to IFRS 1 bring benefit to first-time adopters by reducing the costs of transition to IFRS while there is no impact on entities that already apply IFRS. In addition, EFRAG believes also that the Amendments, will make it possible for more entities to adopt IFRS, and EFRAG's assessment is that overall users will benefit from the Amendments.

Do you agree with this assessment?

☒ Yes ☐ No

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

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?

☒ Yes ☐ No

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

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?

☒ Yes ☐ No

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

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 17 May 2012 *Annual Improvements to IFRSs 2009-2011 Cycle* (henceforth referred to as 'the Amendments') together with the related Basis for Conclusions. The Amendments were issued in draft form in June 2011 in the Exposure Draft ED/2011/2 *Improvements to IFRSs*.

3 Set out below is a description of each of the Amendments made by the standard. The IASB decided that all the amendments apply for annual periods beginning on or after 1 January 2013, with earlier application permitted.

IFRS 1 First-time Adoption of International Financial Reporting Standards

4 The amendments to IFRS 1 provide guidance on two distinct issues:

(a) the repeated application of IFRS 1; and

(b) borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs.

5 The IASB decided to clarify that an entity that meets the criteria for applying IFRS 1 and that has applied IFRSs in a previous reporting period, may choose to apply IFRS 1 when it re-adopts IFRSs if its most recent annual financial statements do not contain an explicit and unreserved statement of compliance with IFRSs. In addition, the IASB clarified that an entity may apply IFRSs retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Estimates and Errors* as if the entity had never stopped applying IFRSs. Furthermore, the IASB decided to require certain disclosures when an entity re-adopts IFRSs.

6 Regarding borrowing costs, the IASB clarified that if an entity chooses to apply the exemption currently in IFRS 1, borrowing costs that were capitalised in accordance with its previous GAAP should be carried forward in its opening statement of financial position. In addition, the IASB clarified that an entity should account for borrowing costs that are incurred after the date of transition and that relate to qualifying assets under construction at the date of transition in accordance with IAS 23 *Borrowing Costs*, regardless of whether the entity capitalised or recognised in profit and loss borrowing costs under previous GAAP. A first-time adopter could also choose to apply the requirements of IAS 23 from a date earlier than the date of transition, in which case it should account for borrowing costs in accordance with IAS 23 on or after the earlier date selected.

IAS 1 Presentation of Financial Statements

7 IAS 1 requires presentation of comparative information in circumstances when an entity changes accounting policies, or makes retrospective restatements or reclassifications, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* with reference to the opening statement of financial position. The IASB decided to change these requirements so that related notes to the opening statement of financial position are no longer required to be presented. In addition, the IASB decided to require the presentation of a third statement of financial position only if a change in an accounting policy, a retrospective restatement or a reclassification has a material effect upon the information in the statement of financial position.

8 IAS 1 does not specifically address which comparative information should be presented when an entity provides financial statements beyond the minimum comparative information requirements on a voluntary basis. The IASB decided that an entity may present comparative information in addition to the minimum comparative financial statements required by IFRSs, as long as that information is prepared in accordance with IFRSs. This comparative information may consist of one or more statements referred to in paragraph 10 of IAS 1, but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.

9 Finally, the Amendments to IAS 1 provide guidance on narrative information provided in the financial statements for the previous period which continues to be relevant in the current period. The IASB believed that users may benefit from the disclosure of the existence of an uncertainty at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

IAS 16 Property, Plant and Equipment

10 The IASB decided to clarify that items such as spare parts, stand-by equipment and servicing equipment qualify as property, plant and equipment when they meet the definition of property, plant and equipment; otherwise they are classified as inventory.

IAS 32 Financial Instruments: Presentation

11 The IASB addressed a perceived inconsistency between IAS 12 *Income Taxes* and IAS 32 *Financial Instruments: Presentation* recognising income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction.

12 Accordingly, the IASB decided to clarify that the income tax consequences of dividends should be recognised in profit or loss in accordance with paragraph 52B of IAS 12. Therefore, to the extent that the dividend relates to income arising from a transaction that was originally recognised in profit or loss, the income tax on the dividend should be recognised in profit or loss. Whereas if the dividend relates to income or a contribution arising from a transaction that was originally recognised in other comprehensive income or equity, respectively, the entity should apply the exception in paragraph 58(a) of IAS 12, and recognise the income tax consequences of the dividend outside of profit or loss. The amendment also clarifies that the tax effect of distributions to holders of an equity instrument other than dividends and the tax effect of transaction costs of an equity transaction are recognised in accordance with the principle in paragraph 57 of IAS 12.

13 These amendments are not intended to address the distinction between income tax consequences of dividends in accordance with paragraph 52B of IAS 12 and withholding tax for dividends in accordance with paragraph 65A of IAS 12. When an entity pays dividends to its shareholders the portion of the dividends paid or payable to taxation authorities as withholding tax is charged, in accordance with paragraph 65A, to equity as part of the dividends.

IAS 34 Interim Financial Reporting

14 The IASB decided to clarify that total assets and liabilities for a particular reportable segment are required to be disclosed only if (1) a measure of total assets or a measure of total liabilities (or both) is regularly provided to the chief operating decision maker; and (2) there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

APPENDIX 2

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

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Annual Improvements to IFRSs 2009-2011 Cycle *('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 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and in Article 2(3) of Council Directive 78/660/EEC; and

(b) meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

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

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

(a) IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs;

(b) IAS 16 *Property, Plant and Equipment* – Classification of servicing equipment; and

(c) IAS 34 *Interim Financial Reporting* – Interim financial reporting and segment information for total assets and liabilities.

3 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.

4 In EFRAG's view, the following three 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 1 *First-time Adoption of International Financial Reporting Standards* – Repeated application of IFRS 1;

(b) IAS 1 *Presentation of Financial Statements* – Clarification of the requirements for comparative information; and

(c) IAS 32 *Financial Instruments: Presentation* – Tax effect of distribution to holders of equity instruments.

Accordingly, these three amendments are discussed below.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Repeated application of IFRS 1

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 1 *First-time Adoption of International Financial Reporting Standards* – Repeated application of IFRS 1 ('the Amendments to IFRS 1') 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 retrospective application enhances the relevance of financial information as it produces information that permits users to evaluate past, present or future events, accordingly EFRAG believes that the Amendments to IFRS 1 that permit an entity to apply IAS 8 when it re-adopts IFRSs avoid an unnecessary reduction in the relevance of financial information.

8 EFRAG believes that permitting repeat application of IFRS 1 – while reducing the cost of re-adopting IFRSs – may limit the relevance of financial information. However, the Amendments to IFRS 1 allow more entities to re-adopt IFRSs, which will result in an overall improvement in the relevance of the information provided.

9 On balance, EFRAG's overall initial assessment is that the Amendments to IFRS 1 would result in the provision of relevant information; and therefore they satisfy the relevance criterion.

Reliability

10 EFRAG also considered the reliability of the information that will be provided by applying the Amendments to IFRS 1. 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.

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

12 The Amendments to IFRS 1 clarify that an entity that meets the criteria for applying IFRS 1 and that has applied IFRSs in a previous reporting period may choose to apply IFRS 1 when it re-adopt IFRSs. In addition, the Amendments to IFRS 1 permit retrospective application if the benefits of applying IFRSs – as if they had always been applied – would exceed the costs of preparing such information.

13 The IASB clarified in the Basis for Conclusion that the Amendments to IFRS 1 that there is no increased risk of the use of hindsight because of the guidance in paragraphs 14 to 17 of IFRS 1 and paragraph 53 of IAS 8. Therefore, EFRAG believes that a minimum level of reliability is ensured by avoiding hindsight in re-adopting IFRSs.

14 Moreover, EFRAG believes that the enhanced disclosures when an entity applies IAS 8 upon re-adoption, rather than IFRS 1, mitigates the risk of structuring opportunities and produces more reliable information.

15 Therefore, EFRAG's overall initial assessment is that the Amendments to IFRS 1 would raise no concerns about risk of error or bias; and therefore they satisfy the reliability criterion.

Comparability

16 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.

17 EFRAG has considered whether the Amendments to IFRS 1 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.

18 The Amendments to IFRS 1 provide an option to entities that re-adopt IFRSs to apply IFRSs retrospectively under IAS 8 or to reapply IFRS 1. To the extent that entities apply IFRSs retrospectively under IAS 8, the comparability of financial statements is enhanced. However, EFRAG notes that by permitting the repeated application of IFRS 1 adversely affects the comparability of financial information. Notwithstanding, EFRAG believes that the Amendments will facilitate the re-adoption of IFRS by more entities and, consequently, the comparability of financial statements will be enhanced over time.

19 On balance, EFRAG's overall initial assessment is that the Amendments to IFRS 1 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 1 is understandable, is whether that information will be unduly complex.

23 The IASB requires an entity that elects to re-adopt IFRSs to provide, in addition to the disclosures in IFRS 1, an explanation of the reason why it had stopped applying IFRSs and the reason for resuming the application of IFRSs.

24 Accordingly, in EFRAG's view, the Amendments do not introduce any new complexity that may impair understandability for those entities that elect to apply IFRS 1. Entities that elect to apply IFRSs retrospectively under IAS 8 should also provide the disclosures required by IFRS 1 and hence – while enhancing the understandability of re-adoption of IFRSs – this would not introduce any new complexity.

25 Therefore, EFRAG's overall initial assessment is that the Amendments to IFRS 1 satisfy the understandability criterion in all material respects.

IAS 1 Presentation of Financial Statements – Clarification of the requirements for comparative information

Relevance

26 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.

27 EFRAG considered whether the Amendments to *IAS 1 Presentation of Financial Statements – Clarification of the requirements for comparative information* ('the Amendments to IAS 1') 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.

28 The Amendments to IAS 1 clarify the requirements regarding comparative information that an entity is required to provide or that it provides on a voluntary basis. In addition, the Amendments to IAS 1 require narrative information provided in the financial statements for the preceding period and that remains relevant, to be included in the financial statements of the current period. EFRAG believes that the Amendments to IAS 1 result in increased disclosure of relevant financial information and, accordingly, that relevance is enhanced to the extent that the information is more comparable.

29 The Amendments to IAS 1 require the presentation of a third statement of financial position only in circumstances where the change in accounting policies, the reclassification and the retrospective restatement has a material effect on the information in the statement of financial position. EFRAG believes that providing disclosure when it is material does not lead to the omission of relevant of financial information.

30 Consequently, EFRAG's overall initial assessment is that the Amendments to IAS 1 would result in the provision of relevant information; and therefore they satisfy the relevance criterion.

Reliability

31 EFRAG also considered the reliability of the information that will be provided by applying the Amendments to IAS 1. 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.

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

33 The Amendments to IAS 1 provide clarification of requirements for comparative information and guidance on the comparative information provided beyond minimum requirements and therefore it does not introduce any new or additional guidance within the IFRS literature in term of recognition and measurement requirements.

34 Accordingly, EFRAG believes that the evaluation of the respect of the reliability criterion is covered by the analysis made in respect to the relevance, the comparability and the understandability criteria.

Comparability

35 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.

36 EFRAG has considered whether the Amendments to IAS 1 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.

37 The Amendments to IAS 1 clarify that the appropriate date for the opening statement of financial position is the beginning of the preceding period in cases of changes in accounting policies, retrospective restatements and or reclassifications in accordance with IAS 8. EFRAG believes that this clarification enhances the comparability of financial information as it reduces divergence in practice that existed in the application of IAS 1.

38 The Amendments to IAS 1 remove the requirement to present notes related to the opening statement of financial position when a change in accounting policy, a retrospective restatement or a reclassification occur. While this provides relief to preparers, EFRAG believes that it could reduce the comparability of financial information as entities are only required to provide the mandatory disclosures under IAS 8 rather than a full set of notes.

39 The Amendments to IAS 1 also clarify that when an entity provides additional financial information on a voluntary basis, it is not necessary to present a complete set of financial statements for periods beyond the minimum requirements. However,

the entity should provide related note information to the additional financial information.

40 EFRAG believes that such clarification reduces the divergence in practice and increases the amount of information disclosed when information is provided on a voluntary basis beyond minimum requirements. Therefore, it results in useful guidance for preparers and relevant information for users and therefore it enhances the comparability of financial statements.

41 On balance, EFRAG's overall initial assessment is that the Amendments to IAS 1 satisfy the comparability criterion.

Understandability

42 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.

43 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.

44 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 1 is understandable, is whether that information will be unduly complex.

45 The Amendments to IAS 1 result in a clarification of the requirement for comparative information in circumstances it is provided both on a mandatory and on a voluntary basis. In addition, the Amendments to IAS 1 enhance guidance on the disclosing uncertainties presented in previous financial statements. Accordingly, in EFRAG's view, the Amendments to IAS 1 do not introduce any new complexities that may impair understandability.

46 Therefore, EFRAG's overall initial assessment is that the Amendments to IAS 1 satisfy the understandability criterion in all material respects.

IAS 32 Financial Instruments: Presentation – Tax effect of distribution to holders of equity instruments.

Relevance

47 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.

48 EFRAG considered whether the Amendments to IAS 32 Financial Instruments: Presentation – Tax effect of distribution to holders of equity instruments ('the Amendments to IAS 32') would result in the provision of relevant information. That is, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

49 The Amendments to IAS 32 clarify that the income tax consequences of dividends are recognised in profit and loss in accordance with paragraph 52B of IAS 12 to the extent that the dividend relates to income arising from a transaction that was

originally recognised in profit and loss. In addition, the Amendments to IAS 32 require recognition of income tax consequences outside profit and loss when the dividend relates to income or a contribution that was originally recognised in the statement of other comprehensive income or equity.

50 Although there are a number of aspects to the notion of 'relevance', EFRAG believes that most of the aspects are covered by the discussion below about reliability and comparability.

51 EFRAG's overall initial assessment is that the Amendments to IAS 32 would not result in the omission of relevant information; and therefore they satisfy the relevance criterion.

Reliability

52 EFRAG also considered the reliability of the information that will be provided by applying the Amendments to IAS 32. 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.

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

54 The Amendments to IAS 32 clarify that the income tax consequences of distributions to equity holders and of equity transaction costs should follow the general guidance in IAS 12. Accordingly, income tax should be accounted in the same manner as the underlying transaction that gave rise to it. EFRAG believes that the Amendments to IAS 32 will reduce the divergence in practice in accounting for the income tax consequences of distribution to equity holders and of equity transactions costs and therefore result in more reliable information.

55 EFRAG's overall initial assessment is that the Amendments to IAS 32 would raise no concerns about risk of error or bias; and therefore they satisfy the reliability criterion.

Comparability

56 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.

57 EFRAG has considered whether the Amendments to IAS 32 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.

58 EFRAG believes that the Amendments to IAS 32 will further enhance comparability of financial statements as it will remove the perceived inconsistency of the tax effect of dividend distribution which caused differences in practice.

59 The Amendments to IAS 32 provide clarifications on the accounting for the tax effect of dividend distribution and therefore addresses existing divergence in practice. This will result in consistent accounting for the tax effects of dividend

distributions and thereby increase comparability between entities. Therefore, EFRAG's overall initial assessment is that the Amendments to IAS 32 satisfy the comparability criterion.

Understandability

60 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.

61 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 reliability and comparability.

62 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 32 is understandable, is whether that information will be unduly complex.

63 As previously explained the Amendments to IAS 32 do not introduce any new accounting requirements. Therefore, EFRAG's overall initial assessment is that the Amendments satisfy the understandability criterion in all material respects.

True and Fair

64 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

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

Conclusion

66 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 the amendments included in the Annual Improvements to IFRSs 2009-2011 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, but that cost will be insignificant. EFRAG's initial assessment is also that all requirements included in the Amendments will not involve any measurable change in costs for preparers or users and that the benefits to be derived from implementing the Amendments are likely to outweigh the costs involved except in the areas discussed below.

4 Based on EFRAG's assessment, the application of the amendments in the following two areas 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.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Repeated application of IFRS 1

Cost for preparers on first-time adoption

5 EFRAG has carried out an initial assessment of the cost implications for preparers resulting from the Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Repeated application of IFRS 1 ('the Amendments to IFRS 1').

6 The Amendments to IFRS 1 permit entities that re-adopt IFRSs to choose, depending on specific facts and circumstances, to apply either IFRS 1 or IAS 8 upon adoption of IFRSs. Therefore, EFRAG believes that the Amendments to IFRS 1 will reduce the costs to re-adopt IFRSs as entities can choose the least costly approach.

7 Overall, EFRAG's initial assessment is that the Amendments to IFRS 1 are likely to reduce the costs for preparers to re-adopt IFRSs.

Costs for users

8 EFRAG has carried out an initial assessment of the cost implications for users resulting from the Amendments to IFRS 1.

9 EFRAG believes that there will be some incremental costs for users if they need to compare the financial statements of entities applying the Amendments to IFRS 1 to

those of entities already applying IFRS in case an entity elects to re-apply IFRS 1. However, EFRAG understands that users are already familiar with IFRS 1 and that the disclosures required upon re-adoption of IFRSs will mitigate the costs to be incurred by users.

10 Overall, EFRAG's initial assessment is that the Amendments to IFRS 1 will not result in significant costs to users.

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 1.

12 EFRAG believes that the Amendments to IFRS 1 bring benefit to first-time adopters by reducing the costs of transition to IFRS while there is no impact on entities that already apply IFRS.

13 In addition, EFRAG believes that users will benefit from the Amendments as they permit the retrospective application of IFRSs in circumstances, thus enhancing the reliability and the quality of financial information. In addition, the Amendments to IFRS 1 introduce new disclosure requirements that increase the understandability of the financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs

Cost for preparers on first-time adoption

14 EFRAG has carried out an assessment of the cost implications for preparers resulting from the amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs ('the Amendments to IFRS 1').

15 EFRAG notes that the Amendments to IFRS 1 allow a first-time adopter to apply prospectively the existing guidance in IAS 23 on capitalisation of borrowing costs. Prospective application is aimed at avoiding, or at least significantly reducing, the one-off costs related to the transition to the IFRS from previous GAAP. Due to the nature of the Amendments to IFRS 1, no impact is envisioned on entities that already apply IFRSs.

16 EFRAG's assessment is that the Amendments to IFRS 1 are likely to reduce the one-off costs at the date of transition to IFRSs and do not impact the ongoing costs of applying IFRSs for preparers.

Costs for users

17 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments to IFRS 1.

18 There will be some incremental costs for users if they need to compare the financial statements of first-time adopters to those of entities already applying IFRSs. However, EFRAG notes that the relief for preparers is similar to other reliefs in IFRS 1.

19 Overall, EFRAG's assessment is that the Amendments to IFRS 1 will not significantly affect the costs for users.

Benefits for preparers and users

20 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments to IFRS 1.

21 EFRAG believes that the Amendments to IFRS 1 bring benefit to first-time adopters by reducing the costs of transition to IFRS while there is no impact on entities that already apply IFRS.

22 EFRAG believes also that the Amendments, will make it possible for more entities to adopt IFRS, and EFRAG's assessment is that overall users will benefit from the Amendments.

Conclusion

23 Overall, EFRAG's assessment is that the benefits to be derived from implementing the Amendments are likely to outweigh the costs involved.