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

29 August 2012

Dear Mr Faull

Adoption of *Annual Improvements to IFRSs 2009-2011 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 2009-2011 Cycle* ('the Amendments'), which were issued by the IASB on 17 May 2012. It was issued as an Exposure Draft in June 2011 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 2009 on areas of inconsistency in IFRSs or where clarification of wording is required.

The Amendments are effective for annual periods beginning on or after 1 January 2013, although entities are permitted to apply them earlier.

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:

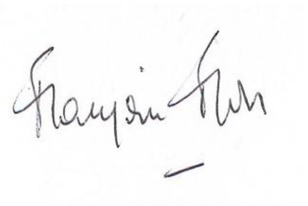
- are not contrary to the principle of 'true and fair view' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

- 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 'Appendix - Basis for Conclusions'.

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 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 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 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 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 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 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, in EFRAG's view, the Amendments to IAS 1 do not raise any concern about the reliability of information.

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 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 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 In EFRAG's view, the Amendments to IAS 32 do not raise any concern about the relevance of information.

Reliability

51 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.

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

53 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 provide clarification and therefore they 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.

54 EFRAG's overall 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

55 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.

56 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.

57 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.

58 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 assessment is that the Amendments to IAS 32 satisfy the comparability criterion.

Understandability

59 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.

60 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.

61 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.

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

True and Fair

63 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

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

Conclusion

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