

## EFRAG STAFF PAPER FOR PUBLIC MEETING

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## **DRAFT ENDORSEMENT ADVICE REPORT ON IFRS 9 *Financial Instruments***

### **INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS**

**Comments should be sent to [commentletters@efrag.org](mailto:commentletters@efrag.org) by [date month year]**

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRS 9 *Financial Instruments* ('IFRS 9' or 'the Standard'). In order to do that, EFRAG has been carrying out an assessment of IFRS 9 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing impact of IFRS 9 on the European public good.

A summary of IFRS 9 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.**

#### **Your details**

- 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:

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(b) Are you a:

Preparer  User  Other (please specify)

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

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(d) Country where you are located:

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(e) Contact details including e-mail address:

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**EFRAG’s initial assessment with respect to the technical criteria for endorsement including whether IFRS 9 leads to prudent accounting**

2 EFRAG’s initial assessment of IFRS 9 is that it meets the technical criteria for endorsement and that it leads to prudent accounting. In other words, it is not contrary to the principle of true and fair view and it meets 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 IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

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**The European public good**

- 3 In its assessment of the impact of IFRS 9 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3.

*IFRS 9 compared to IAS 39*

- 4 EFRAG’s initial assessment of IFRS 9, and particularly with respect to the impairment and hedging requirements, is that it is an improvement over IAS 39 and will lead to higher quality financial reporting. The assessment is reflected in paragraphs 7 to 59 of Appendix 3.

- (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.

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- (b) Are there any issues that are not mentioned in Appendix 3 that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing to IAS 39? If there are, what are those issues and why do you believe they are relevant to the evaluation?

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*The impact of lack of convergence*

- 5 EFRAG’s initial assessment is that IFRS 9 will lead to higher quality financial reporting when compared to current US GAAP and proposed changes to impairment requirements. The assessment is reflected in paragraphs 61 to 83 of Appendix 3.

- (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.

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- (b) Are there any issues that are not mentioned in Appendix 3 that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing US GAAP? If there are, what are those issues and why do you believe they are relevant to the evaluation?

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*Impact on investor and issuer behaviour*

6 EFRAG’s analysis in this area is based on our understanding of both changes in IFRS 9 and current practices of financial institutions and is not a full impact assessment. In its analysis EFRAG has tried to identify potential negative effects only, to contribute to identifying whether there would be any impediment to IFRS 9 being conducive to the European public good. The assessment is reflected in paragraphs 84 to 110 of Appendix 3.

- (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.

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- (b) Are there any issues that are not mentioned in Appendix 3 that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

*Costs and benefits*

- 7 EFRAG is assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 9 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.
- 8 The results of the initial assessment of costs are set out in paragraphs 111 to 147 of Appendix 3. To summarise, EFRAG’s initial assessment is that overall, IFRS 9 is likely to result in significant costs for preparers related to implementation of and ongoing costs of complying with the standard. However, IFRS 9 is not likely to result in significant costs for users after the transition. At transition costs will be incurred in understanding the new financial reporting.

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.

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- 9 In addition, EFRAG is assessing the benefits that are likely to be derived from the application of IFRS 9. The results of the initial assessment of benefits are set out in paragraphs 148 to 163 of Appendix 3. To summarise, EFRAG’s initial assessment is that overall, users and preparers are both likely to benefit from IFRS 9, as the information resulting from it will be relevant and transparent and therefore will enhance the analysis of users.

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.

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- 10 EFRAG’s initial assessment is that the benefits to be derived from implementing IFRS 9 in the EU as described in paragraph 9 above are likely to outweigh the costs involved as described in paragraph 8 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.

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*Overall assessment with respect to the European public good*

- 11 EFRAG has initially concluded that endorsement of IFRS 9 would be conducive to the European public good (see Appendix 3, paragraphs 166 to 169).

Do you agree with the assessment of these factors?

Yes  No

If you do not agree, please explain your reasons.

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*Other matters for consideration*

- 12 EFRAG has initially concluded that the endorsement of IFRS 9 (2014) would not affect the ability of entities to rely on the carve out. In addition EFRAG has noted that IFRS 9 slightly changes one of the carved-out paragraphs of IAS 39, without affecting the substance of the carve-out. As a consequence, it would be necessary for a legal expert to assess whether an update of the relevant paragraph is needed.

(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.

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- (b) Are there any issues that are not mentioned in Appendix 4 that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the EU carve out? If there are, what are those issues and why do you believe they are relevant to the evaluation?

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