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EFRAG's Draft Letter to the European Commission Regarding the Endorsement of Annual Improvements to IFRS Accounting Standards— Volume 11

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European Commission
1049 Brussels

[...] 2024

Dear Mr John Berrigan

Endorsement of Annual Improvements to IFRS Accounting Standards—Volume 11

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, EFRAG is pleased to provide its opinion on the Annual Improvements to IFRS Accounting Standards—Volume 11 ('the Amendments'), which were issued by the IASB on 18 July 2024. An Exposure Draft of the Amendments had been issued on 12 September 2023. EFRAG provided its comment letter on that Exposure Draft on 8 December 2023.

The objective of the Amendments is to provide limited changes that either clarify the wording in the amended IFRS Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements of the IFRS Accounting Standards. The following IFRS Accounting Standards and accompanying guidance will be affected by the Amendments:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* - Hedge accounting by a first-time adopter;
- IFRS 7 *Financial Instruments: Disclosures* - gain or loss on derecognition
- *Guidance on implementing IFRS 7:*
 - Introduction;
 - Disclosure of deferred difference between fair value and transaction price;
 - Credit risk disclosures;
- IFRS 9 *Financial Instruments:*
 - Derecognition of lease liabilities;

- Transaction price;
- IFRS 10 Consolidated Financial Statements - determination of a ‘de facto agent’; and
- IAS 7 Statement of Cash Flows - cost method.

The Amendments shall be applied for annual periods beginning on or after 1 January 2026, with earlier application permitted. If entities apply the Amendments earlier, they shall disclose that fact. Further, the amendment to IFRS 9 related to the derecognition of lease liabilities shall be applied to lease liabilities that are extinguished on or after the beginning of the annual reporting period in which the entity first applies that amendment (i.e., prospective application). All the other amendments shall be applied retrospectively. Further details are included in Appendix 1 to this letter.

In order to provide our endorsement advice as you have requested, we have first assessed whether the Amendments would meet the technical criteria for endorsement, in other words whether the Amendments would provide relevant, reliable, comparable and understandable information required to support economic decisions and the assessment of stewardship, lead to prudent accounting and is not contrary to the true and fair view principle. We have then assessed whether the Amendments would be conducive to the European public good. We provide our conclusions below.

Among others, the Amendments include changes to the *Guidance on implementing IFRS 7 Financial Instruments: Disclosures* and the Basis for Conclusions of IFRS 7, IFRS 9, IFRS 10 and IAS 7. As Regulation (EC) No 2017/1986 of the European Parliament and of the Council on the application of international accounting standards is limited to the main text of the standards - as well as Appendix A (defined terms), Appendix B (application guide), Appendix C (transition) and Appendix D (amendments to other standards) - EFRAG’s endorsement advice in Appendix 1, 2 and 3 to this letter does not cover nor include any reference to the *Guidance on implementing IFRS 7 Financial Instruments: Disclosures* and the aforementioned Basis for Conclusions.

Do the Amendments meet the IAS Regulation technical endorsement criteria?

EFRAG has concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, and raise no issues regarding prudent accounting. EFRAG has also assessed that the Amendments do not create any distortion in their interaction with other IFRS Standards and that all necessary disclosures are required. Therefore, EFRAG has concluded that the Amendments are not contrary to the true and fair view principle. EFRAG’s reasoning is explained in Appendix 2 to this letter.

Are the Amendments conducive to the European public good?

EFRAG has assessed that the Amendments would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified that the Amendments could have any adverse effect on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that endorsing the Amendments is conducive to the European public good. EFRAG's reasoning is explained in Appendix 3 to this letter.

Our advice to the European Commission

As explained above, we have [tentatively] concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, raise no issues regarding prudent accounting; and that they are not contrary to the true and fair view principle. We have also [tentatively] concluded that the Amendments are conducive to the European public good. Therefore, we recommend the Amendments for endorsement without further delay.

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,

Wolf Klinz
Chair of the EFRAG FRB

Appendix 1: Understanding the changes brought about by the Amendments

Background of the Amendments

- 1 Annual improvements provide a mechanism for the IASB to efficiently issue a collection of minor amendments to the IFRS Accounting Standards. In accordance with the IASB’s due process as described in the IFRS Foundation Due Process Handbook, annual improvements are limited to changes that either clarify the wording in an IFRS Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements in the IFRS Accounting Standards.
- 2 Further, it has to be noted that matters dealt with through annual improvements often arise from questions submitted to the IFRS Interpretations Committee.
- 3 The following table shows the IFRS Accounting Standards amended and the subjects of the amendments (limited to those covered by this endorsement advice):

IFRS Accounting Standard	Subject of amendments
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Hedge accounting by a first-time adopter
IFRS 7 <i>Financial Instruments: Disclosures</i>	Gain or loss on derecognition
IFRS 9 <i>Financial Instruments</i>	Derecognition of lease liabilities
	Transaction price
IFRS 10 <i>Consolidated Financial Statements</i>	Determination of a ‘de facto agent’
IAS 7 <i>Statement of Cash Flows</i>	Cost method

The issues and how they have been addressed

IFRS 1 - Hedge accounting by a first-time adopter

- 4 Stakeholders informed the IASB about potential confusion arising from an inconsistency between the wording of paragraph B6 of IFRS 1 and the requirements for hedge accounting in IFRS 9.
- 5 The IASB amended paragraphs B5–B6 of IFRS 1 to improve their consistency with the requirements in IFRS 9 and to add cross-references to improve the accessibility and understandability of IFRS Accounting Standards.

IFRS 7 - Gain or loss on derecognition

- 6 It was noted that IFRS 7 included a cross reference to a paragraph which was no longer existing since it has been moved to IFRS 13 in 2011. The IASB amended paragraph B38 of IFRS 7 to update such an obsolete cross-reference.

IFRS 9 - Derecognition of lease liabilities

- 7 As explained in Agenda paper 12A of the May 2023 IASB meeting, there was more than one way to read the requirements about how a lessee makes a corresponding adjustment when its lease liability has been extinguished and it removes that liability from its statement of financial position applying paragraph 3.3.1 of IFRS 9. The lessee could either:

- (a) recognise the gain or loss in profit or loss applying paragraph 3.3.3 of IFRS 9, but is not required to do so because paragraph 2.1(b)(ii) of IFRS 9 does not refer to paragraph 3.3.3 of IFRS 9; or
- (b) make a corresponding adjustment to its right-of-use asset recognised applying IFRS 16.

8 The IASB amended paragraph 2.1(b) (ii) of IFRS 9 to add a cross-reference to paragraph 3.3.3 of that IFRS Accounting Standard with the aim to resolve potential confusion for a lessee applying the derecognition requirements in IFRS 9.

IFRS 9 - Transaction price

- 9 It was highlighted that IFRS 9 does not seem to envisage scenarios in which the amount of a receivable may differ from the transaction price that are instead envisaged by IFRS 15 in case of variable consideration, rebate or refund (as shown in the Illustrative Example 40 accompanying IFRS 15).
- 10 Therefore, the IASB amended paragraph 5.1.3 and Appendix A of IFRS 9 to clarify the use of the term ‘transaction price’ in the Standard and improve consistency between IFRS 9 and IFRS 15 when referring to transaction price related to revenue from contracts with customers.

IFRS 10 - Determination of a ‘de facto agent’

- 11 Stakeholders informed the IASB that the requirements in paragraphs B73 and B74 could have been contradictory in some situations. Paragraph B73 refers to ‘de facto agents’ as parties acting on the investor’s behalf and states that the determination of whether other parties are acting as de facto agents requires judgement. However, the second sentence of paragraph B74 used more conclusive language by stating that a party is a de facto agent when those that direct the activities of the investor have the ability to direct that party to act on the investor’s behalf.
- 12 The IASB amended IFRS 10 to remove from paragraph B74 such an inconsistency with paragraph B73.

IAS 7 - Cost method

- 13 The IASB had removed the definition of ‘cost method’ from IFRS Accounting Standards in May 2008 when it issued Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate. However, at that time, the IASB had not amended paragraph 37 of IAS 7.
- 14 The IASB amended paragraph 37 of IAS 7 to remove a reference to ‘cost method’ that is no longer defined in IFRS Accounting Standards.

What has changed?

15 The following changes were brought about by the Amendments (limited to those covered in this endorsement advice):

IFRS Accounting Standard	What has changed?
IFRS 1 - Hedge accounting by a first-time adopter	The Amendments added in paragraphs B5 and B6 the cross-references, respectively, to paragraphs 6.4.1(a) and 6.4.1(b)–(c) of

IFRS Accounting Standard	What has changed?
	<p>IFRS 9, to improve the accessibility and understandability of IFRS Accounting Standards.</p> <p>Further, they amended paragraph B6 replacing ‘conditions’ with ‘qualifying criteria’ to improve its consistency with the wording used in IFRS 9.</p>
IFRS 7 - Gain or loss on derecognition	<p>The Amendments updated paragraph B38 of IFRS 7 to replace the reference to paragraph 27A of IFRS 7 with a reference to paragraphs 72–73 of IFRS 13 Fair Value Measurement, which effectively replaced the requirements in paragraph 27A of IFRS 7 moved to IFRS 13 in 2011.</p> <p>Further, they aligned the wording in paragraph B38 of IFRS 7 with the wording in paragraph 72 of IFRS 13 by replacing the phrase ‘inputs that were not based on observable market data’ with ‘unobservable inputs’.</p>
IFRS 9 - Derecognition of lease liabilities	<p>The Amendments added in paragraph 2.1(b) (ii) of IFRS 9 a cross-reference to paragraph 3.3.3 of IFRS 9, which - in addition to the existing one to paragraph 3.3.1 of IFRS 9 - aims to resolve potential confusion for a lessee applying the derecognition requirements in the Standard.</p>
IFRS 9 - Transaction price	<p>The Amendments modified:</p> <ul style="list-style-type: none"> • paragraph 5.1.3 and of IFRS 9 replacing the reference to ‘transaction price’ as defined in IFRS 15 with ‘the amount’ determined by applying IFRS 15; and • Appendix A of IFRS 9 deleting the reference to ‘transaction price’ (and the associated references to IFRS 15).
IFRS 10 - Determination of a ‘de facto agent’	<p>The IASB amended paragraph B74 to use less conclusive language and to clarify that the relationship described in paragraph B74 is just one example of a circumstance in</p>

IFRS Accounting Standard	What has changed?
	which judgement is required to determine whether a party is acting as a de facto agent.
IAS 7 - Cost method	The IASB amended paragraph 37 of IAS 7 by replacing the reference to ‘cost method’ with ‘at cost’.

When do the Amendments become effective?

- 16 An entity shall apply the Amendments for annual periods beginning on or after 1 January 2026, with earlier application permitted. If an entity applies the Amendments for an earlier period, it shall disclose that fact.
- 17 The amendment to IFRS 9 related to the derecognition of lease liabilities shall be applied to lease liabilities that are extinguished on or after the beginning of the annual reporting period in which the entity first applies that amendment (i.e., prospective application).

Appendix 2: EFRAG's technical assessment on the Amendments against the endorsement criteria

Notes to Constituents:

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments. In it, EFRAG assesses how the Amendments satisfy the technical criteria set out in the Regulation (EC) No 1606/2002 for the adoption of international accounting standards. It provides a detailed evaluation for the criteria of relevance, reliability, comparability and understandability, so that financial information is appropriate for economic decisions and the assessment of stewardship. It evaluates separately whether the Amendments lead to prudent accounting and finally considers whether the Amendments would not be contrary to the true and fair view principle.

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 Standards 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 Standard or Interpretation against the technical criteria for 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 IFRS Standards 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 endorsement in the European Union?

- 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 (The IAS Regulation), in other words that the Amendments:
 - (a) are not contrary to the principle set out in Article 4 (3) of Council Directive 2013/34/EU (The Accounting Directive); 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.
- 2 Article 4(3) of the Accounting Directive provides that:

The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial

position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.

- 3 The IAS Regulation further clarifies that ‘to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise - this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of this Directive’ (Recital 9 of the IAS Regulation).
- 4 EFRAG’s assessment as to whether the Amendments would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.
- 5 In its assessment, EFRAG has considered the Amendments from the perspectives of both usefulness for decision-making and assessing the stewardship of management. EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making decisions and assessing the stewardship of management.
- 6 EFRAG’s assessment on whether the Amendments are not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on the assessment of whether it meets all other technical criteria and whether [it/they] lead(s) to prudent accounting. EFRAG’s assessment also includes assessing whether the Amendments do not interact negatively with other IFRS Standards and whether all necessary disclosures are required. Detailed assessments are included in this appendix in the following paragraphs:
 - (a) relevance: paragraphs 11 to 13;
 - (b) reliability: paragraphs 14 to 16;
 - (c) comparability: paragraphs 17 to 26;
 - (d) understandability: paragraphs 27 to 30;
 - (e) whether overall they lead(s) to prudent accounting: paragraphs 31 to 32; and
 - (f) whether they would not be contrary to the true and fair view principle 33 to 36.
- 7 In providing its assessment on whether the Amendments result in relevant, reliable, understandable and comparable information, EFRAG considers that their objective is to provide limited changes that either clarify the wording in the amended IFRS Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements of the IFRS Accounting Standards.
- 8 Furthermore, based on the feedback collected so far¹, EFRAG understands that diversity in practice might exist in applying:
 - (a) The requirements in IFRS 9 and/or in IFRS 16 to the derecognition of lease liabilities when the extinguishment of a lease liability arises from a change in the lease contract which only modifies the consideration paid. Indeed, in these situations the lessee could either:

¹ Stakeholders’ preliminary views on the Amendments was already reflected in the EFRAG Comment Letter to the IASB’s Exposure Draft IASB/AI/ED/2023/1 Annual Improvements—Volume 11 issued in December 2023 ([consult the document here](#)).

- (i) recognise the gain or loss in profit or loss applying paragraph 3.3.3 of IFRS 9, but was not required to do so because paragraph 2.1(b)(ii) of IFRS 9 did not refer to paragraph 3.3.3 of IFRS 9, or
 - (ii) make a corresponding adjustment to its right-of-use asset recognised applying IFRS 16.
- (b) The judgment required by paragraphs B73-B74 of IFRS 10 to assess whether other parties are acting as de facto agents.

9 However, EFRAG acknowledges that clarifying the interaction between IFRS 9 and IFRS 16 and reconsidering how the assessment of control is performed by applying IFRS 10 are beyond the scope of what is solved in this annual improvements project.

10 The Amendments are assessed on the text as amended.

Relevance

11 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. Information is also relevant when it assists in evaluating the stewardship of management.

12 EFRAG considered whether the Amendments 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.

13 Given the nature of the Amendments and stakeholders’ concerns summarised in paragraphs 8-9 above, EFRAG did not identify any aspects of the Amendments that would negatively affect relevance.

Reliability

14 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. 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.

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

16 Given the nature of the Amendments and stakeholders’ concerns as further explained in paragraphs 8-9 above, EFRAG’s overall assessment is that the Amendments result in reliable information.

Comparability

17 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.

18 EFRAG has considered whether the Amendments 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.

IFRS 9 - Derecognition of lease liabilities

- 19 As mentioned in paragraph (a) above the amendment to IFRS 9 related to the derecognition of lease liabilities will continue to not address the interaction between IFRS 9 and IFRS 16 when the extinguishment of a lease liability arises from a change in a lease contract which only involves a change in the consideration paid. This might still lead to diversity in practice on how such extinguishments will be accounted for by the lessee.
- 20 However, EFRAG acknowledges that this issue should be part of a narrow-scope standard-setting project and therefore addressing it would go beyond the scope of Annual Improvements project.
- 21 The amendments will increase comparability when a lessee has determined that a lease liability has been extinguished in accordance with IFRS 9.

IFRS 10 - Determination of a 'de facto agent'

- 22 As mentioned in paragraph (b) above, EFRAG acknowledges that the amendment to IFRS 10 leaves unsolved a number of issues in the assessment of de facto agent. For example, it does not explain why it would be appropriate to include consideration of shareholdings in an investee by the controlling shareholder of an investor when assessing the investor's influence over an investee.
- 23 However, EFRAG notes that the purpose of the narrow scope amendment is not to change how the assessment of control is performed, which goes beyond the scope of Annual Improvements project, but to allow more flexibility in using judgement when considering the nature of a relationship with other parties.
- 24 EFRAG notes that making judgements is inherent in a principles-based environment and that the level of judgement resulting from the amendment to IFRS 10 is not so exceptional in nature that it would be impracticable to apply the requirements.

Overall

- 25 On balance, EFRAG's overall assessment is that the Amendments will result in comparable information although the comparability could be limited in those situations described above.
- 26 EFRAG, however, notes that judgements are unavoidable in principles-based standards. Judgement may also be necessary in order to achieve comparability rather than uniformity (without regard to the substance of a transaction or event). Finally, EFRAG considers that the level of judgement required by the Amendments is not so exceptional that it would generally result in information that is not comparable.

Understandability

- 27 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.
- 28 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

- 29 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 is understandable, is whether that information will be unduly complex.
- 30 Given the nature of the Amendments and stakeholders’ concerns summarised in paragraphs 8-9 above, EFRAG did not identify any aspects of the Amendments that would affect understandability

Prudence

- 31 For the purpose of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated and liabilities or expenses are not understated.
- 32 Given the nature of the Amendments and stakeholders’ concerns summarised in paragraphs 8-9 above, EFRAG did not identify any aspects of the Amendments that would affect prudence.

True and Fair View Principle

- 33 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Standards, it:
- (a) does not lead to unavoidable distortions or significant omissions in the representation of that entity’s assets, liabilities, financial position and profit or loss; and
 - (b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity’s assets, liabilities, financial position and profit or loss.
- 34 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Standards. In particular, the Amendments provide limited changes that either clarify the wording in the amended IFRS Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements of the IFRS Accounting Standards. Accordingly, EFRAG has assessed that the Amendments do not lead to unavoidable distortions or significant omissions and therefore do not impede financial statements from providing a true and fair view.
- 35 EFRAG has concluded that the appropriate disclosures that are necessary to provide a complete and reliable depiction of an entity’s assets, liabilities, financial position and profit or loss are required.
- 36 As a result, EFRAG concludes that the application of the Amendments would not lead to information that would be contrary to the true and fair view principle.

Conclusion

- 37 Accordingly, for the reasons set out above, EFRAG’s assessment is that the Amendments meet the technical requirements for EU endorsement as set out in the IAS Regulation.

Appendix 3: Assessing whether the Amendments are conducive to the European public good

Introduction

- 1 EFRAG considered whether it would be conducive to the European public good to endorse the Amendments. In addition to its assessment included in Appendix 2, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of the Amendments. In doing this, EFRAG considered:
 - (a) whether the Amendments improve financial reporting. This requires a comparison of the Amendments with the existing requirements and how they fit into IFRS Standards as a whole;
 - (b) the costs and benefits associated with the Amendments; and
 - (c) whether the Amendments could have an adverse effect to the European economy, including financial stability and economic growth.
- 2 These assessments allow EFRAG to draw a conclusion as to whether the Amendments are likely to be conducive to the European public good. If the assessment concludes there is a net benefit, the Amendments will be conducive to the objectives of the IAS Regulation.

EFRAG's evaluation of whether the Amendments are likely to improve the quality of financial reporting

- 3 EFRAG notes that the Amendments² are designed to:
 - (a) clarify the wording in the amended IFRS Accounting Standards; or
 - (b) correct relatively minor unintended consequences, oversights or conflicts between the requirements of the IFRS Accounting Standards.
- 4 However, with reference to the amendments related to IFRS 9 – Derecognition of lease liabilities and to IFRS 10 - Determination of a 'de facto agent', EFRAG highlights that they would not address the aforementioned issues in relation to the interaction between IFRS 9 and IFRS 16 and to the assessment of de facto agent.
- 5 EFRAG has therefore concluded that the Amendments may provide some improvements to the quality of financial reporting, although, they may not eliminate all sources of diversity in practice arising from the interaction between IFRS 9 and IFRS 16 and the application of IFRS 10 as detailed, respectively, in paragraphs (a) and (b) of Appendix 2.

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

- 6 EFRAG first considered the extent of the work. For some Standards or Interpretations, it might be necessary to carry out some extensive work, in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work.

Cost for preparers

- 7 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments.

² Limited to the amendments covered by this endorsement advice.

- 8 EFRAG notes that the Amendments:
- (a) are narrow in scope, would not change or add requirements and would help maintain consistency between existing requirements; and
 - (b) do not include any specific transition requirements³, except for the amendment to paragraph 2.1(b)(ii) of IFRS 9 which has to be applied prospectively (i.e. to lease liabilities that are extinguished on or after the beginning of the annual reporting period in which the entity first applies that amendment). This would allow entities to avoid additional costs associated with the restatement of those extinguishments occurred before the first application of this amendment.
- 9 Overall, EFRAG's assessment is that the Amendments will not result in increased costs to preparers, i.e. it is likely to be cost neutral.

Costs for users

- 10 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments.
- 11 Given their content, EFRAG's initial assessment is that the Amendments will not involve any significant costs for users.

Benefits for preparers and users

- 12 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments.
- 13 Overall, EFRAG's assessment is that users are likely to benefit from the Amendments, as they will remove inconsistency among existing IFRS Accounting Standards, although, they may not eliminate all sources of diversity in practice arising from the interaction between IFRS 9 and IFRS 16 and the application IFRS 10 as detailed, respectively, in paragraphs (a) and (b) of Appendix 2.

Conclusion on the costs and benefits of the Amendments

- 14 The overall benefits of enhanced consistency of application are likely to outweigh any cost associated with implementing the Amendments.

Conclusion

- 15 EFRAG believes that the Amendments will generally bring improved financial reporting when compared to current guidance. As such, their endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.
- 16 EFRAG has not identified the Amendments could have any adverse effect to the European economy, including financial stability and economic growth.
- 17 Furthermore, EFRAG has not identified any other factors that would mean endorsement is not conducive to the public good.

³ In the absence of any specific transition requirements, an entity would apply the proposed amendment retrospectively in accordance with paragraph 19(b) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

- 18 Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, EFRAG assesses that endorsing the Amendments is conducive to the European public good.