

Jörgen Holmquist
Director General
European Commission
Directorate General for the Internal Market
1049 Brussels

19 February 2010

Dear Mr Holmquist

Adoption of the Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

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 adoption of the Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which was published by the IASB on 28 January 2010. It was issued as an Exposure Draft in November 2009 and EFRAG commented on that draft.

The Amendment provides optional relief to First-time Adopters of International Financial Reporting Standards from providing the additional fair value measurement and liquidity risk disclosures introduced by the Amendments to IFRS 7 *Financial Instruments: Disclosures* in March 2009. The Amendment ensures that First-time Adopters benefit from the same transition provisions that Amendments to IFRS 7 *Financial Instruments: Disclosures* provides to current preparers of IFRS.

The effective date of the Amendment is 1 July 2010, with early application permitted.

EFRAG has carried out an evaluation of the Amendment. As part of that process, EFRAG issued a draft version of this letter 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 Amendment and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

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

EFRAG's Endorsement Advice Letter on the Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards

- it meets 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 believes that it is in the European interest to adopt the Amendment and, accordingly, EFRAG recommends its adoption. EFRAG's reasoning is explained in the attached 'Appendix - Basis for Conclusions'.

On behalf of the members 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

Stig Enevoldsen
EFRAG, Chairman

**APPENDIX
BASIS FOR CONCLUSIONS**

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on IFRS 1 First-time Adoption of International Financial Reporting Standards (the Amendment).

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity as a contributor to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as adviser to the European Commission on endorsement of the final IFRS or Interpretation on the issue.

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 European endorsement criteria, 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 Amendment meet the criteria for EU endorsement?

- 1 EFRAG has considered whether the Amendment meets the requirements of the European Parliament and of the Council on the application of international accounting standards, in other words that the Amendment:
 - (a) is 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) meets 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 has also considered whether it is in the European interest to adopt the Amendment.

- 2 Having formed tentative views on these issues and prepared a draft assessment, EFRAG issued that draft assessment on 29 January 2010 and asked for comment on it by 18 February 2010. EFRAG has considered all comments received, and all were supportive of EFRAG's tentative conclusion that the Amendment meets the EU endorsement criteria and EFRAG should recommend its endorsement.

Comparability

- 3 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.

EFRAG's Endorsement Advice Letter on the Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards

- 4 The Amendment provides an optional relief to entities from comparative disclosures in IFRS 7 concerning fair value measurements and liquidity risk if those comparative periods end before 31 December 2009. If an entity makes use of the option, comparability of financial statements of such an entity will be affected.
- 5 However, by requiring entities to provide enhanced disclosures about liquidity risk and fair value measurement the IASB was responding to the urgent need of users of financial statements for such disclosures in the current economic climate.
- 6 EFRAG considers that the expedient adoption of the enhanced disclosures by entities in the current economic climate outweighs negative effects of reduction in comparability caused by the relief. Furthermore it should be noted that the loss in comparability will be temporary because the relief from comparative disclosures applies only if comparative periods end before 31 December 2009.

Relevance

- 7 According to the Framework, information has the quality of relevance 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.
- 8 The Amendment does not raise any issues of relevance.

Reliability

- 9 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. The Framework explains that 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 that which it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.
- 10 The Amendment does not raise any issues concerning reliability.

Understandability

- 11 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.
- 12 The Amendment does not raise any issues concerning understandability.

True and fair view

- 13 For the reasons set out above, EFRAG sees no reason to conclude that the Amendment is inconsistent with the true and fair view requirement.

EFRAG's Endorsement Advice Letter on the Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards

Cost and benefit

- 14 EFRAG has considered whether the benefits of implementing the Amendment in the EU exceed the cost of doing so. EFRAG's assessment is that the benefits of implementing the Amendment outweigh the costs involved.

Conclusion

- 15 After considering all the above arguments, EFRAG has concluded that, on balance, the Amendment satisfies the criteria for EU endorsement and that it is likely to be in the European interest to adopt it. Accordingly, EFRAG recommends its endorsement in Europe.