

## **The cost and benefits of implementing the revision to IFRS 1 *First-time Adoption of International Financial Reporting Standards***

### **Introduction**

- 1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG will gather that information in the case of the revision to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Restructured IFRS 1).
- 2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly 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 Restructured IFRS 1, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. (The results of the consultations EFRAG has carried out seem to confirm this). Therefore, as explained more fully in the main sections of the report, the approach EFRAG has adopted has been to carry out an initial assessment of the likely costs and benefits of implementing the revision in the EU, to consult on the results of that initial assessment, and to finalise the assessment in the light of the comments received.

### *EFRAG's endorsement advice*

- 3 EFRAG also carries out a technical assessment of all new and revised Standards and Interpretations issued by the IASB and IFRIC against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

### **A summary of the revision to IFRS 1**

- 4 IFRS 1 provides guidance on the initial adoption of IFRS and provides a limited number of exemptions and exceptions as a practical solution for certain implementation issues. Since IFRS 1 was first issued in 2003 it has been amended several times to accommodate first-time adoption requirements of new or amended IFRSs, making the standard more complex than necessary and difficult to amend further.

- 5 The objective in replacing the existing IFRS 1 with the Restructured IFRS 1 is to make IFRS 1 easier to use and amend in the future. The intention is that the requirements should not change.
- 6 The main difference between the standards is that the existing standard has been restructured. This has been done by moving some paragraphs from the main body of the standard to appendices and grouping them as follows:
  - (a) Appendix B includes exceptions to the retrospective application.
  - (b) Appendix C includes exemptions for business combinations.
  - (c) Appendix D includes exemptions from other IFRSs.
- 7 In addition, outdated transitional provisions have been omitted. These provisions are those (such as now omitted paragraph 47E) which made reference to long past effective dates:

47E An entity shall apply amendments in paragraph 13(l) and 25G for annual periods beginning on or after 1 January 2005. If an entity applies the amendments to IAS 39 Financial Instruments: Recognition and Measurement—Transitional and Initial Recognition of Financial Assets and Financial Liabilities for an earlier period, these amendments shall be applied for that earlier period.
- 8 There have also been some minor wording changes. Some wording changes—such as changing paragraph references to appendices—were necessary consequential changes of the amendments already described. In addition, some references to GAAP or IFRS were changed from ‘under’ to ‘in accordance with’ but the intention is that those changes, and indeed all the changes being made, should have no impact on what the standard requires.
- 9 The Restructured IFRS 1 as issued in November 2008 required application for first IFRS financial statements for periods beginning on or after 1 January 2009. However, the IASB changed the effective date to 1 July 2009 at its December 2008 meeting to prevent potential problems arising from the interaction of this date with the effective dates of certain other IFRSs.

#### **EFRAG's initial analysis of the costs and benefits of the revision to IFRS 1**

- 10 EFRAG has considered whether, and if so to what extent, implementing the Restructured IFRS 1 in the EU might involve preparers or users incurring incremental costs, and whether those costs are likely to be exceeded by the benefits to be derived from its adoption.
- 11 The IASB's intention is that replacing existing IFRS 1 with the Restructured IFRS 1 will not result in any change in the requirements of IFRS; the objective is only to simplify the standard so that it is easier to use and easier to amend in the future. EFRAG's initial assessment was that there had indeed been no changes made to the requirements.
- 12 On that basis, EFRAG went on to tentatively conclude that:
  - (a) implementing the Restructured IFRS 1 would for some EU preparers result in some insignificant additional year one costs, but that those incremental costs would overall be balanced out for EU preparers as a whole by cost savings arising from the simplification of the standard. As a result, EFRAG's

tentative view was that the Restructured IFRS 1 was likely to have no cost implications for EU preparers overall;

- (b) the Restructured IFRS 1 would not have cost implications for users; and
- (c) the Restructured IFRS 1 would have no impact on the quality of the financial information provided.

13 Thus, EFRAG's initial assessment was that the benefits and costs arising for preparers and users from implementing the Restructured IFRS 1 in the EU were likely to balance each other out. On the other hand, it seemed likely that the Restructured IFRS 1 would result in net benefits for those jurisdictions still to transition to IFRS and also for the IASB.

14 EFRAG published its initial assessment of the costs and benefits of implementing the Restructured IFRS 1 in the EU and supporting analysis on 27 January 2009 and invited comment on it until 13 March 2009. In response, EFRAG received 6 comment letters and all agreed with EFRAG's initial assessment and had no additional comments, although two stated they had not carried out a detailed examination of the effects involved EFRAG's final analysis of the costs and benefits of the revision to IFRS 1.

#### **EFRAG's final analysis of the costs and benefits of the revision to IFRS 1**

15 EFRAG's assessment is that the replacement of the existing IFRS 1 with the Restructured IFRS 1 will not result in any change in the requirements of IFRS.

##### *Costs for preparers*

16 As the requirements of IFRS will be unaffected by the implementation of Restructured IFRS 1, EFRAG's assessment is that there are unlikely to be any incremental costs for EU preparers arising from the revised standard except that, for stakeholders involved with multiple transitions to IFRS, it will be necessary to read and understand the new structure and this will involve those stakeholders some additional insignificant costs in year one.

17 The IASB intends the Restructured IFRS 1 to be less complex and therefore easier to understand and use. EFRAG believes this is likely to prove to be the case, which means that transitions are likely to involve lower costs in the future than in the past. EFRAG's assessment is, however, those cost savings are likely to be insignificant.

18 EFRAG believes that these additional (insignificant) costs and (insignificant) cost savings will broadly balance each other out in the case of EU preparers as a whole and that therefore overall the Restructured IFRS 1 will have no cost implications for EU preparers.

##### *Costs for users*

19 As users should not see any difference in the financial information provided under the Restructured IFRS 1, EFRAG's view is that users will not incur any additional costs as a result of the standard.

*Benefits for preparers and users*

- 20 As EFRAG's assessment is that the restructuring will have no effect on the actual requirements, it follows that its assessment is that Restructured IFRS 1 will have no impact on the information provided in financial statements. Thus, there will not be benefits arising from the implementation of Restructured IFRS 1, other than the cost savings discussed (and taken into account) already.

*Conclusion*

- 21 EFRAG's overall assessment is therefore that:
- (a) implementing the Restructured IFRS 1 will for some EU preparers result in some insignificant additional year one costs, but that those incremental costs will overall be balanced out for EU preparers as a whole by cost savings arising from the simplification of the standard. As a result, EFRAG believes that overall the Restructured IFRS 1 will have no cost implications for EU preparers;
  - (b) the Restructured IFRS 1 will not have cost implications for users and will also have no impact on the financial information provided.
- 22 Thus, EFRAG's assessment is that the benefits and costs arising for preparers and users from implementing the Restructured IFRS 1 in the EU will balance each other out. On the other hand, EFRAG believes that the Restructured IFRS 1 will result in net benefits for those jurisdictions still to transition to IFRS and also for the IASB.

**EFRAG**  
**30 March 2009**