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EFRAG's Letter to the European Commission Regarding Endorsement of Prepayment features with negative compensation (Amendments to IFRS 9)

Olivier Guersent
Director General, Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Brussels

dd Month 2017

Dear Mr Guersent,

Endorsement of *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

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 *Prepayment Features with Negative Compensation (Amendments to IFRS 9)* ('the Amendments'), which were issued by the IASB on 12 October 2017. An Exposure Draft of the Amendments was issued on 21 April 2017. EFRAG provided its comment letter on that Exposure Draft on 31 May 2017.

The objective of the Amendments is to address the classification of particular prepayable financial assets when applying IFRS 9 *Financial Instruments*. More precisely, it addresses the situation in which the party that exercises an option to prepay a financial asset could receive a compensation payment from the other party. This is referred to as 'negative compensation'. As a result of a negative compensation arrangement, a lender could be forced to accept a prepayment amount that is substantially less than unpaid amounts of principal and interest of a debt instrument.

The Amendments become effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. A description is included in Appendix 1 to this letter.

In order to provide our 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 are 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.

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, 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.

Do the Amendments meet the IAS Regulation technical endorsement criteria?

In addressing the uncertainty relating to classification and measurement of financial instruments with negative prepayment features, 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. EFRAG further notes that the Amendments address concerns raised by European constituents arising from uncertainty on how to apply IFRS 9 to financial instruments with negative prepayment features. Based on the above considerations, EFRAG assesses that endorsing the Amendments is conducive to the European public good. EFRAG's reasoning is explained in Appendix 3 to this letter.

In EFRAG's assessment of whether the Amendments would be conducive to the European public good, EFRAG has assessed whether the Amendments would improve financial reporting, would reach an acceptable cost-benefit trade-off, and whether the Amendments could affect economic growth.

Our advice to the European Commission

As explained above, we have 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 concluded that the Amendments are conducive to the European public good. Therefore, we recommend the Amendments for endorsement.

We bring to the attention of the European Commission that the effective date of the Amendments is one year later than the effective date of IFRS 9. We have been advised that the ability to apply the Amendments early and at the same time as applying IFRS 9 would reduce costs for both preparers and users. Consequently, EFRAG has accelerated the development of its endorsement advice in order to complete its part of the endorsement process as speedily as possible.

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,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix 1: Understanding the changes brought about by the Amendments

Background of the Amendments

1 After IFRS 9 *Financial Instruments* was issued, the IFRS Interpretations Committee (the Interpretations Committee) received a submission asking how to classify particular prepayable financial assets applying IFRS 9. Specifically, the submission asked whether a debt instrument could have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding if its contractual terms permit the borrower to prepay the instrument at an amount that could be more or less than unpaid amounts of principal and interest, such as at the instrument's current fair value or at an amount that reflects the remaining contractual cash flows discounted at the current market interest rate.

2 As a result of such a contractual prepayment feature, the party that has to accept the prepayment could be forced to accept a prepayment amount that is substantially less than unpaid amounts of principal and interest. Such a prepayment amount would, in effect, include an amount that reflects a compensation payment to the party that chooses to terminate the contract early, paid by the other party. This is referred to as 'negative compensation'.

The issue and how it has been addressed

3 When the Interpretations Committee discussed the submission referred to above, most of its members were of the view that IFRS 9's existing guidance on prepayable financial assets in which the prepayment amount includes reasonable compensation for early termination accommodates only instruments for which the party exercising the option to terminate the contract compensates the other party (i.e. 'positive compensation').

4 However, Interpretations Committee members suggested that the IASB consider whether using amortised cost measurement could provide useful information about particular financial assets with such prepayment features and, if so, whether the requirements in IFRS 9 should be changed in this respect.

5 In the light of the Interpretations Committee's recommendation and similar concerns raised by banks and their representative bodies in response to the Interpretations Committee's discussion, the IASB proposed amendments to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature that may result in a reasonable amount of negative compensation. Applying the Amendments, such financial assets would be eligible to be measured at amortised cost or at fair value through other comprehensive income ('FVOCI'), subject to the assessment of the business model in which they are held.

What has changed?

6 The Amendments propose a change to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a negative prepayment feature.

7 Specifically, for a financial asset that contains a prepayment option that may result in the payment of a reasonable negative compensation amount, the Amendments require the financial asset to be measured at amortised cost or at FVOCI, subject to the assessment of the business model in which it is held.

When do the Amendments become effective?

8 An entity shall apply the Amendments for annual periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies the Amendments for an earlier period, it shall disclose that fact.

9 The Amendments include relevant disclosures about the effect of the transition. They shall be applied retrospectively, except as specified below.

10 When an entity first applies the Amendments at the same time it first applies IFRS 9, the entity applies the transition requirements of IFRS 9. In contrast, when an entity first applies the Amendments after it first applies IFRS 9, specific transition requirements are provided in the Amendments.

11 An entity is not required to restate prior periods to reflect the effect of the Amendments, and can choose to do so only if it is possible without the use of hindsight and if the restated financial statements reflect all the requirements of IFRS 9.

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

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.

Relevance

6 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.

7 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 they would result in the omission of relevant information.

8 In assessing relevance EFRAG has looked at the following issues:

(a) Prepayment features with negative and positive compensation;

(b) Amortised cost measurement; and

(c) Effective date of 1 January 2019 with early application.

Prepayment features with negative and positive compensation

9 Currently, IFRS 9 provides guidance on whether a prepayable financial asset is eligible to be measured at amortised cost or FVOCI when the prepayment amount includes reasonable compensation for early termination of the contract. However, IFRS 9 is not explicit as to whether this guidance applies only to 'positive compensation' (i.e. circumstances in which the party exercising the prepayment option may pay compensation) or also envisages 'negative compensation' (i.e. circumstances in which the party exercising the prepayment option may receive compensation).

10 EFRAG notes that financial instruments that incorporate prepayment features with negative compensation do not include contractual cash flow payments of principal and interest that are different from the cash flows that may arise from financial instruments with positive compensation. The contracts supporting such financial instruments merely change the circumstances in which the 'compensation' amounts could arise, and the potential sign of the compensation component of the prepayment. Consequently, EFRAG considers that measurement at amortised cost or at FVOCI provides relevant information for financial instruments with prepayment features with reasonable negative compensation. EFRAG also acknowledges that some financial assets with negative compensation features may have a higher likelihood of exercise than those with only positive compensation features and, therefore, higher variability of expected cash flows.

Amortised cost measurement

11 The Amendments have the effect that a financial asset that contains a prepayment feature that may result in a reasonable amount of negative compensation would be eligible to be measured at amortised cost or at FVOCI, subject to the assessment of the business model in which it is held.

12 EFRAG observes that negative compensation features can result in the lender being forced to accept a prepayment amount that is less than the amount of unpaid principal and interest of a debt instrument. However, EFRAG notes that the existing guidance in IFRS 9 on compensation features applies to situations in which the borrower, the lender or both parties have an option to terminate the contract early (and pay reasonable compensation to the other party). If the lender were to exercise a prepayment option with a positive compensation feature, it would pay compensation to the borrower. Accordingly, in accordance with IFRS 9, it is already possible to measure a financial asset that may be prepaid at an amount that is less than the unpaid amounts of principal and interest at amortised cost or at FVOCI.

13 EFRAG also considers that in applying the effective interest method to measure such financial assets at amortised cost, the entity considers the contractual cash flows arising from such a prepayment feature when it estimates the future cash flows and determines the effective interest rate at initial recognition. Subsequently, consistent with the treatment of all financial instruments measured at amortised cost, the entity adjusts the gross carrying amount of the financial asset if it revises its estimates of contractual cash flows, including any revisions related to the exercise of the prepayment feature.

14 EFRAG notes that, in some situations, both the borrower and the lender have the option to terminate the loan before maturity and, if the loan is terminated early, the prepayment amount includes compensation that reflects the change in the relevant benchmark interest rate. For example, if the loan is terminated early (by either party) and the relevant benchmark interest rate has fallen since the loan was initially recognised, then the lender will effectively receive an amount representing the present value of lost interest revenue over the loan's remaining term. Conversely, if the contract is terminated early (by either party) and the relevant benchmark interest

rate has risen, then the borrower will effectively receive an amount that represents the effect of that change in that interest rate over the loan's remaining term.

15 Consistent with paragraph 10 above, EFRAG acknowledges that the contractual terms of financial instruments that incorporate prepayment features with negative compensation do not introduce different contractual cash flow amounts from the contractual cash flow amounts accommodated by IFRS 9. That is, the financial instrument's prepayment amount is calculated in the same way as a positive prepayment amount and reflects unpaid amounts of principal and interest plus or minus an amount that reflects the effect of the change in the relevant benchmark interest rate.

Effective date of 1 January 2019 with early application

16 The Amendments are applicable for annual periods beginning on or after 1 January 2019, with earlier application permitted.

17 Early application will allow entities to apply the Amendments at the same time as IFRS 9 is applied. Applying IFRS 9 and the Amendments at the same time will lead to relevant information as it allows entities to measure and present financial instruments with either positive or negative compensation consistently and in line with their business model.

18 When an entity does not early adopt the Amendments, EFRAG notes that these instruments might fail the solely payments of principal and interest test. As a result, financial instruments that will be measured using amortised cost or FVOCI when the Amendments are applied may, for one annual period, be measured at fair value through profit or loss in accordance with the unamended version of IFRS 9. When the Amendments are applied, entities may need to revise their measurement bases. EFRAG acknowledges that changing the basis of measurement in successive annual periods might restrict the relevance of the information provided.

19 However, EFRAG assesses that this is mitigated by the facts that:

(a) in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, entities are required to disclose the effect of future IFRS Standards on the current period or any prior period, unless impracticable;

(b) there is only one year between the effective date of IFRS 9 and the effective date of the Amendments; and

(c) when applying the Amendments for the first time, entities are required to disclose information to enable users to understand the effect of the change.

20 Therefore, EFRAG assesses that the effective date of 1 January 2019, with early application permitted, results in information that is relevant to users of the financial statements. EFRAG acknowledges the limitation of relevance that may arise from the Amendments having an effective date that is one year later than IFRS 9. However, EFRAG notes that this is a short-term limitation and assesses that the 1 January 2019 effective date reflects a reasonable trade-off with the practical difficulties that could arise from an earlier effective date.

Conclusion

21 Overall, based on the above analysis, EFRAG concludes that the Amendments will result in relevant information.

Reliability

22 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.

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

24 In assessing reliability EFRAG has looked at the issue of transition. EFRAG has not identified any other issues that would affect reliability.

Transition

25 Entities that apply the Amendments after applying IFRS 9 are not required to restate prior periods to reflect the application of the Amendments. Entities may restate prior periods if, and only if, it is possible without the use of hindsight and the restated financial statements reflect all the requirements in IFRS 9.

26 EFRAG notes that by not restating comparative information, the reliability of information could be reduced for an instrument that would have always been carried at an amortised cost if the Amendments had been applied early.

27 EFRAG assesses that, as the difference in the carrying amount will be quantified and additional disclosures are required as part of the Amendments, users will have sufficient information available to evaluate the impact of the Amendments therefore the reliability of information provided is not reduced.

Conclusion

28 Overall, EFRAG concludes that the Amendments will result in reliable information.

Comparability

29 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.

30 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.

31 In assessing comparability EFRAG has looked at the following issues:

(a) avoiding future diversity in practice;

(b) prepayment features with negative and positive compensation; and

(c) transition requirements for entities applying the Amendments for the first time after they apply IFRS 9.

Avoiding future diversity in practice

32 EFRAG notes that, without the Amendments or some other form of authoritative clarification, it was possible that diversity in practice could arise when implementing IFRS 9, as different views existed on how financial instruments with negative prepayment features should be classified. EFRAG assesses that the Amendments clarify the appropriate treatment and, thus, contribute to comparability of the resulting information.

Prepayment features with negative and positive compensation

33 EFRAG notes that the Amendments align the eligibility criteria for prepayment features with negative compensation to those prepayment features with positive compensation. EFRAG assesses this as resulting in comparable information when measuring financial instruments with prepayment features, as the prepayment contractual terms do not introduce different cash flow amounts before a prepayment

event: they only change the circumstances in which the compensation amounts may arise and may have a higher likelihood of exercise. EFRAG assesses that, as long as the compensation for early termination of the contract is reasonable, the sign of that compensation should not overrule the fact that the underlying financial instruments are comparable, as they do not introduce variability that is inconsistent with a basic lending arrangement.

Transition requirements for entities applying the Amendments for the first time after they apply IFRS 9

34 Entities are provided with a choice as to whether to restate prior periods to reflect the application of the Amendments. However, EFRAG notes that restatement is not permitted when it cannot be applied without the use of hindsight. EFRAG considers that disclosures around the measurement and recognition before and after applying the Amendments, irrespective of which option an entity chooses, mitigate any potential lack of comparability.

Conclusion

35 Overall, EFRAG concludes that the Amendments lead to comparable information.

Understandability

36 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.

37 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that all relevant aspects are covered by the discussion above about relevance, reliability and comparability.

38 EFRAG has not identified any issues that affect the understandability of the Amendments.

Prudence

39 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.

40 Prudence is different from and unrelated to prudential reporting. The former is a qualitative characteristic used in accounting standard setting and is applicable to the financial statements of all companies. The latter refers to the reporting by individual financial institutions to regulators in order to meet the regulator's objectives (such as capital adequacy and liquidity).

41 EFRAG did not identify any aspects of the Amendments that would affect prudence.

True and Fair View Principle

42 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.

43 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Standards and are designed to complement IFRS 9. 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.

44 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.

45 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

46 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 The Amendments propose a change to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature that may result in a reasonable amount of negative compensation. Specifically, the Amendments require that a prepayable financial asset for which the prepayment amount includes a reasonable amount of negative compensation may be eligible to be measured at amortised cost or at FVOCI, subject to the assessment of the business model in which it is held.

4 EFRAG understands that the Amendments address those prepayment features that would meet the requirements for measurement at amortised cost or FVOCI under IFRS 9, except for the fact that they could result in compensation for the early termination of the contract that is negative. EFRAG understands that this condition would require the negative compensation to be 'reasonable', consistent with the requirement for positive compensation.

5 EFRAG also observes that the Amendments address concerns raised by European constituents in applying IFRS 9 to financial instruments with negative prepayment features, as they reduce the uncertainty in interpreting IFRS 9's requirements in relation to such instruments. As noted in Appendix 2, without the Amendments, the risk existed that diversity in practice could arise when implementing IFRS 9.

6 EFRAG has therefore concluded that the Amendments are likely to improve the quality of financial reporting.

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

7 EFRAG first considered the extent of the work. For some IFRS 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 IFRS 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.

8 EFRAG published its initial assessment on 18 October 2017. It invited comments on the material by 2 November 2017. In response, EFRAG received nine comment letters. Nine respondents agreed with EFRAG's assessment of the benefits of implementing the Amendments and the associated costs involved for users and preparers. Based on its initial analysis and stakeholders' views on that analysis, EFRAG's detailed final analysis of the costs and benefits of the Amendments is presented in the paragraphs below.

Costs for preparers

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

10 Entities that will be affected by the Amendments will have to measure financial assets with negative compensation at amortised cost or at FVOCI, subject to the assessment of the business model in which they are held.

11 EFRAG does not expect preparers that apply the Amendments at the same time they apply IFRS 9 to incur significant one-off costs resulting from the Amendments. EFRAG does not expect that these costs will be significant, as affected entities already have the necessary information to apply them.

12 On the other hand, preparers that will apply the Amendments later than they apply IFRS 9 would have to classify and measure financial assets in accordance with the existing version of IFRS 9 and then reassess the classification and measurement when the Amendments are applied one year later. EFRAG assesses that due to such a reassessment within a short time-frame, preparers will incur some costs, including communicating the change to the users of the financial statements.

13 EFRAG does not expect preparers to incur additional ongoing costs due to the application of the Amendments.

14 Overall, EFRAG's assessment is that the Amendments are likely to result in insignificant costs for preparers related to implementation and ongoing application of the Amendments.

Costs for users

15 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments.

16 The main cost for users will be the one-off cost to understand the change brought by the Amendments, especially in cases of entities that will apply the Amendments later than they apply IFRS 9.

17 EFRAG does not expect users to incur additional ongoing costs due to the application of the Amendments.

18 Overall, EFRAG's assessment is that the Amendments are likely to result in insignificant costs for users which are limited to understanding the new requirements.

Benefits for preparers and users

19 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments.

20 The Amendments are designed to address the concerns of some interested parties about how particular prepayable financial assets are classified and measured in accordance with IFRS 9. EFRAG considers that the Amendments improve the guidance in IFRS 9 that, in the absence of clarification, could be interpreted in different ways. Therefore, in EFRAG's view, users will benefit from a more consistent application of the requirements in IFRS 9, which will improve the resulting financial information available for their analysis. Further, preparers are expected to benefit

from reducing the effort required to determine how the guidance should be interpreted.

21 Overall, EFRAG's assessment is that users and preparers are likely to benefit from the Amendments.

Conclusion on the costs and benefits of the Amendments

22 EFRAG's overall assessment is that the overall benefits resulting from improved financial information being available on a more relevant, understandable and comparable basis are likely to outweigh costs associated with implementation of the Amendments, which are considered as insignificant.

Conclusion

23 EFRAG believes that the Amendments will generally bring improved financial reporting when compared to current guidance in IFRS 9. 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.

24 EFRAG has not identified the Amendments could have any adverse effect on the European economy, including financial stability and economic growth.

25 Furthermore, EFRAG has considered whether there are any other factors that would mean endorsement is not conducive to the public good and has not identified any such factors.

26 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.