EFRAG's Draft Letter to the European Commission Regarding Endorsement of Annual Improvements to IFRS Standards 2018 - 2020

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European Commission
1049 Brussels

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Dear Mr Berrigan

Endorsement of Annual Improvements to IFRS Standards 2018-2020

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 Annual Improvements to IFRS Standards 2018-2020 ('the Amendment,' or collectively 'the Amendments'), which were issued by the IASB on 14 May 2020. An Exposure Draft of the Amendments was issued on 21 May 2019. EFRAG provided its comment letter on that Exposure Draft on 20 August 2019.

The Amendments would:

(a) permit an entity that is a subsidiary, associate or joint venture, who becomes a first-time adopter later than its parent and elects to apply paragraph D16(a) of IFRS 1 *First-time Adoption of International Financial Reporting Standards,* to measure the cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs;

(b) clarify that the reference to fees in the 10 per cent test includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf;

(c) remove the potential confusion regarding the treatment of lease incentives applying IFRS 16 *Leases* as was illustrated in Illustrative Example 13 accompanying IFRS 16; and

(d) remove the requirement in paragraph 22 of IAS 41 *Agriculture* for entities to exclude cash flows for taxation when measuring fair value applying IAS 41.

The Amendments shall be applied for annual periods beginning on or after 1 January 2022, with earlier application permitted. If an entity applies the Amendments for an earlier period, it shall disclose that fact. A description is 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, leads 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.

Do the Amendments meet the IAS Regulation technical endorsement criteria?

Based on the above reasoning, 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 raised 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.

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, and 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 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,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix 1: Understanding the changes brought about by the Amendments

Background of the Amendments

1 The IASB uses annual improvements to produce efficiently a collection of unrelated minor amendments to IFRS Standards. Rather than separately publishing a series of piecemeal changes, the publication of the Amendments in a single document streamlines the Standard-setting process, with benefits both for stakeholders and for the IASB.

2 The IASB has published the narrow-scope amendments to four IFRS Standards as part of its maintenance and improvements of the Standards.

3 Annual improvements are limited to changes that either clarify the wording in an IFRS Standard or correct relatively minor unintended consequences, oversights or conflicts between requirements in the Standards.

4 Matters dealt with through annual improvements often arise from questions submitted to the IFRS Interpretations Committee.

5 The following table shows the Standards amended and the subjects of the amendments:

Standard	Subject of amendment
Issue 1 - IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Subsidiary as a first-time adopter
Issue 2 - IFRS 9 *Financial Instruments*	Fees included in the '10 per cent' test for derecognition of financial liabilities
Issue 3 - Illustrative Examples accompanying IFRS 16 *Leases*	Lease incentives
Issue 4 - IAS 41 *Agriculture*	Taxation in fair value measurements

The issue and how it has been addressed

Issue 1 - IFRS 1 First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter

6 Paragraph D16(a) of IFRS 1 provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. However, this exemption does not apply to components of equity. Accordingly, a subsidiary that became a first-time adopter later than its parent might be required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs.

7 The Amendments simplify the application of IFRS 1 by a subsidiary that becomes a first-time adopter of IFRS Standards after its parent company has already adopted them and relates to the measurement of cumulative translation differences.

Issue 2 - IFRS 9 Financial Instruments: Fees included in the '10 per cent' test for derecognition of financial liabilities

8 Paragraph 3.3.2 of IFRS 9 requires an entity to derecognise a financial liability and recognise a new financial liability when there is an exchange between an existing borrower and lender of debt instruments with substantially different terms, or when there is a substantial modification of the terms of an existing financial liability or a part of it. Paragraph B3.3.6 specifies that the terms are substantially different if the discounted present value of the cash flows under the new terms is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability (10 per cent test). This paragraph requires an entity to include 'any fees paid net of any fees received' in the 10 per cent test.

9 In response to a request to clarify which fees an entity includes in the 10 per cent test, the IASB decided to amend paragraph B3.3.6 of IFRS 9 to clarify the fees a company includes in assessing the terms of a new or modified financial liability to determine whether to derecognise a financial liability.

Issue 3 - Illustrative Examples accompanying IFRS 16 Leases: Lease incentives

10 The IASB was informed about the potential for confusion in applying IFRS 16 because of the way Illustrative Example 13 accompanying IFRS 16 had illustrated the requirements for lease incentives. Illustrative Example 13 had included as part of the fact pattern a reimbursement relating to leasehold improvements; the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16.

11 The Amendments remove the potential for confusion regarding lease incentives by amending an Illustrative Example accompanying IFRS 16.

Issue 4 - IAS 41 Agriculture: Taxation in fair value measurements

12 In May 2008 the IASB amended IAS 41 to remove the requirement for entities to use a pre-tax rate to discount cash flows when measuring fair value. Paragraph BC6 of IAS 41 explains that the IASB did so on the grounds that a willing buyer would factor into the amount that it would be willing to pay to acquire an asset all incremental cash flows that would benefit the buyer, including expected income tax payments. Nonetheless, at that time the IASB did not amend paragraph 22 of IAS 41 to delete the reference to cash flows for taxation. Consequently, when measuring fair value IAS 41 requires an entity to use pre-tax cash flows but does not require the use of a pre-tax rate to discount those cash flows. This is an inconsistency within IAS 41. On the other hand, IFRS 13 allows to use pre or post tax inputs based on the principle of equivalence.

13 The Amendments align the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

What has changed?

14 The following changes were brought about by the Amendments:

Standard	What has changed?
Issue 1 - IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Following the rationale in paragraph BC60 of IFRS 1, the Amendments permit subsidiaries, associates and joint ventures, who becomes a first-time adopter later than its parent, that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs.
Issue 2 - IFRS 9 *Financial Instruments*	The Amendments clarify that the reference to fees in the 10 per cent test includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
Issue 3 - Illustrative Examples accompanying IFRS 16 *Leases*	The Amendments remove the illustration of payment from the lessor relating to leasehold improvements from Illustrative Example 13 accompanying IFRS 16.
Issue 4 - IAS 41 *Agriculture*	Paragraph 22 of IAS 41 is amended to remove the requirement to exclude cash flows for taxation when measuring fair value.

When do the Amendments become effective?

15 An entity shall apply the Amendments for annual periods beginning on or after 1 January 2022, with earlier application permitted. If an entity applies the Amendments for an earlier period, it shall disclose that fact.

Appendix 2: EFRAG's technical assessment on Annual Improvements to IFRS Standards 2018-2020 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 leads 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 Amendment 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 they lead 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 7 to 14;

(b) reliability: paragraphs 15 to **Error! Reference source not found.**;

(c) comparability: paragraphs 21 to 29;

(d) understandability: paragraphs 30 to 35;

(e) whether overall, they lead to prudent accounting: paragraphs 36 to 37; and

(f) whether they would not be contrary to the true and fair view principle as noted in paragraphs 38 to 41.

Relevance

7 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.

8 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.

Issue 1 - IFRS 1 First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter

9 EFRAG notes that paragraph D16(a) of IFRS 1 provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. EFRAG acknowledges that, absent the Amendment;

(a) the exemption does not apply to cumulative translation differences; and

(b) that a subsidiary that became a first-time adopter later than its parent might be required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs.

10 EFRAG acknowledges that IFRS 1 already provides an exemption relating to cumulative translation differences. Therefore, EFRAG assesses that extending the exemption in paragraph D16(a) of IFRS 1 would not diminish the relevance of

information reported by a subsidiary that becomes a first-time adopter later than its parent.

Issue 2 - IFRS 9 Financial Instruments: Fees included in the '10 per cent' test for derecognition of financial liabilities

11 EFRAG notes that this Amendment arises from a request to clarify which fees an entity includes in the 10 per cent test. As the Amendment provides more clarity on which fees should be included in the 10 per cent test, it is assessed to increase relevance.

12 EFRAG also acknowledges that an entity applies the Amendment to financial liabilities that are modified or exchanged on or after the date it first applies the Amendment. However, EFRAG assesses that the expected benefit from retrospective application of the amendment would not outweigh the cost of requiring entities to reassess all previous modifications and exchanges. In particular, EFRAG considers retrospective application would be unlikely to provide users of financial statements with trend information because financial liabilities are generally modified or exchanged on an ad hoc basis.

Issue 3 - Illustrative Examples accompanying IFRS 16 Leases: Lease incentives

13 The Amendment eliminates the potential for confusion in applying IFRS 16 through the Illustrative Example 13 accompanying IFRS 16 where the example had not explained clearly enough the conclusion as to whether the reimbursement relating to leasehold improvements would meet the definition of a lease incentive in IFRS 16. Therefore, EFRAG assesses the Amendment to be relevant.

Issue 4 - IAS 41 Agriculture: Taxation in fair value measurements

14 EFRAG acknowledges that the Amendment removes the inconsistency within the standard for specifying to use pre-tax cash flows and allowing to use pre-tax or post tax discount rates when measuring fair value. This Amendment is necessary because, since an IAS 41 adjustment in 2008, a pre-tax or post-tax interest rate can be used as the basis for discounting, while the inclusion of the tax cash flows themselves is not (so far) optional - which is considered an oversight that is now rectified. It aligns the requirements in IAS 41 on fair value measurement with those in IFRS 13 *Fair Value Measurement*. Therefore, EFRAG assesses that it could enhance relevance.

Reliability

15 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.

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

Issue 1 - IFRS 1 First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter

17 EFRAG realises that the Amendment allows for the cumulative translation differences of the subsidiary to be a measurement that is already acceptable in accordance with IFRSs. This is because the amount is already recognised in the consolidated financial statements of the parent. Consequently, EFRAG assesses that the Amendment will not jeopardise the reliability of the information provided.

Issue 2 - IFRS 9 Financial Instruments: Fees included in the '10 per cent' test for derecognition of financial liabilities

18 As the Amendment clarifies that only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf should be included in the ten percent test. As a result, the Amendment prohibits including cash flows paid to or received from parties other than the borrower and lender. Therefore, EFRAG considers that the clarification aligns with the objective of the test, which is to quantitatively assess the significance of any difference between the old and new contractual terms on the basis of the changes in the contractual cash flows between the borrower and lender. On this basis EFRAG assesses that the Amendment would lead to more reliable information.

Issue 3 - Illustrative Examples accompanying IFRS 16 Leases: Lease incentives

19 EFRAG considers that eliminating the potential confusion in applying IFRS 16 through the Amendment will lead to more reliable information.

Issue 4 - IAS 41 Agriculture: Taxation in fair value measurements

20 The potential inconsistencies that could arise by using post-tax discount rates for pre-tax cash flows and absent the Amendment would disregard the principle of equivalence and therefore not lead to reliable information. Therefore, EFRAG assesses that the Amendment would increase the use of more reliable information.

Comparability

21 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.

22 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.

Issue 1 - IFRS 1 First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter

23 EFRAG notes that a subsidiary that uses the exemption in paragraph D16(a) may elect, in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. However, EFRAG highlights that the Amendment to paragraph does not prevent a first-time adopter from using the exemption in paragraph D13 of IFRS 1 to set the cumulative translation differences at zero at the date of transition to IFRSs. Therefore, introducing an option which may impair comparability between entities.

24 EFRAG also acknowledges the concern raised in paragraph BC61(b) of IFRS 1 that it is more important to achieve comparability over time within a first-time adopter's first IFRS financial statements and between different entities adopting IFRSs for the first time at a given date. However, EFRAG considers the disclosure requirements under IFRS 1 for exemptions taken by an entity as mitigating factor for this concern.

Issue 2 - IFRS 9 Financial Instruments: Fees included in the '10 per cent' test for derecognition of financial liabilities

25 EFRAG acknowledges that without the Amendments preparers of financial statements sometimes find it difficult to interpret what fees should be included in the ten percent test. This resulted in entities treating similar fees differently, making it

hard for investors to understand and compare the financial positions of different entities. EFRAG assesses that the Amendments clarify the appropriate treatment and, thus, contribute to comparability of the resulting information.

26 It has been noted that paragraph AG62 of IAS 39 *Financial Instruments: Recognition and Measurement* includes the same requirements as those in paragraph B3.3.6 of IFRS 9. EFRAG notes that an entity that has not previously applied any version of IFRS 9 and whose activities are predominantly connected with insurance is permitted to apply IAS 39 for a limited period of time. EFRAG also notes that in providing the temporary exemption from applying IFRS 9, the IASB had not contemplated maintaining IAS 39 (other than for hedge accounting) and given the temporary and limited nature of the exemption and therefore did not amend paragraph AG62 of IAS 39. EFRAG therefore considers that such an amendment would:

(a) apply only to a limited number of entities;

(b) apply only for a limited period of time (that is, from the effective date of the amendment until the effective date of IFRS 17 *Insurance Contracts*[1]); and

(c) affect only those entities that include third-party fees in the 10 per cent test.

27 Given the reasons provided in paragraph 26 coupled with the fact that financial liabilities are generally modified or exchanges on an ad hoc basis, EFRAG assesses that comparability would not be significantly impaired.

Issue 3 - Illustrative Examples accompanying IFRS 16 Leases: Lease incentives

28 Absent the Amendment potential confusion could arise in applying IFRS 16 which could lead to different stakeholders interpreting the information differently. Therefore, EFRAG assesses that the Amendment would increase comparability.

Issue 4 - IAS 41 Agriculture: Taxation in fair value measurements

29 The elimination of the inconsistency within the guidance of IAS 41 and the alignment of the requirements in IAS 41 and IFRS 13 brought about by the Amendments is considered to enhance comparability.

Understandability

30 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.

31 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.

Issue 1 - IFRS 1 First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter

32 As mentioned before that, the cumulative translation differences of the subsidiary would be a measurement that is already acceptable in accordance with IFRSs, therefore EFRAG considers that the Amendment would not reduce understandability.

Issue 2 - IFRS 9 Financial Instruments: Fees included in the '10 per cent' test for derecognition of financial liabilities

33 EFRAG acknowledges that sometimes preparers of financial statements find it difficult to assess which fees are included in the ten percent test. Therefore, EFRAG

[1] In February 2020, the IASB tentatively decided that the effective date of IFRS 17 is 1 January 2023.

assesses that the clarity provided by the Amendment could increase understandability.

Issue 3 - Illustrative Examples accompanying IFRS 16 Leases: Lease incentives

34 EFRAG considers that the Amendment would increase understandability as it eliminates the potential confusion around leasehold improvements as portrayed in Illustrative Example 13 accompanying IFRS 16.

Issue 4 - IAS 41 Agriculture: Taxation in fair value measurements

35 EFRAG assesses that the clarity provided by the Amendment to use either pre-tax or post-tax cash flows and consistent discount rates when measuring fair value could increase understandability.

Prudence

36 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.

Overall

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

True and Fair View Principle

38 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.

Overall

39 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Standards and are designed to complement IFRS 1, IFRS 9, IFRS 16 and IAS 41. 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.

40 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.

41 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

42 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 Amendments are designed to:

(a) simplify the requirements for subsidiaries, associates and joint ventures, who becomes a first-time adopter later than its parent, that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs;

(b) clarify that the reference to fees in the 10 per cent test includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf;

(c) remove the confusion in the illustration of payment from the lessor relating to leasehold improvements from Illustrative Example 13 accompanying IFRS 16; and

(d) remove the inconsistency in the requirement to exclude cash flows for taxation when measuring fair value.

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

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

5 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

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

Overall

7 The Amendments should be applied only on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Therefore, it eliminates the administrative burden to apply the requirements retrospectively. Especially with regards to the Amendment to IFRS 1, EFRAG acknowledges the cost reduction for a subsidiary that became a first-time adopter later than its parent who might have been required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs.

8 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

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

Overall

10 The Amendments aim to promote consistency in applying the requirements in the different IFRSs. Therefore, EFRAG's assessment is that the Amendments are likely to result in cost savings that will outweigh any incremental costs incurred by users to incorporate the new requirements in their analysis.

Benefits for preparers and users

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

Overall

12 Overall, EFRAG's assessment is that users are likely to benefit from the Amendments, as the information resulting from it will remove inconsistency and increase comparability between entities and therefore will enhance their analysis.

Conclusion on the costs and benefits of the Amendments

13 EFRAG's overall assessment is that the overall benefits of enhanced consistency of application and increased comparability are likely to outweigh costs associated with complying with the Amendments.

Conclusion

14 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.

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

16 Furthermore, EFRAG has not identified any other factors that would mean endorsement is not conducive to the public good.

17 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.