EFRAG
European Financial Reporting Advisory Group

EFRAG's Draft Letter to the European Commission Regarding Endorsement of Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

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

[dd Month] 2017

Dear Mr Guersent,

Endorsement of *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*

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 *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)* ('the Amendments'), which were issued by the IASB on 12 October 2017. The Amendments were included in the Exposure Draft *ED/2017/1 Annual Improvements to IFRS Standards 2015-2017 Cycle*, which was issued on 12 January 2017. EFRAG provided its comment letter on that Exposure Draft on 19 April 2017.

The objective of the Amendments is to clarify that an entity applies IFRS 9 *Financial Instruments* to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

The Amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2019, with earlier application permitted. A description of the Amendments 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, 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.

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 lead to 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.

In reaching this conclusion, EFRAG noted that the Amendments clarify that long-term interests in associates and joint ventures are within the scope of both IFRS 9 and, for some

purposes, IAS 28 *Investments in Associates and Joint Ventures.* EFRAG acknowledged that the application of two different IFRS Standards to long-term interests is somewhat complex and may also limit the relevance of the resulting carrying amounts. EFRAG's assessments of these matters are included in Appendix 2 to this letter.

Are the Amendments conducive to the European public good?

In its comment letter to the IASB on the exposure draft that preceded the Amendments, EFRAG also recommended that the accounting treatment of long-term interests in an associate or joint venture should be considered more broadly in the IASB's equity method research project. Pending the outcome of the IASB's equity method research project, EFRAG has assessed that the Amendments would improve financial reporting.

EFRAG has also assessed that the Amendments 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 concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, lead to 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.

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 received a submission asking whether long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture are within the scope of IFRS 9, and, if so, whether the impairment requirements in IFRS 9 apply to such long-term interests.

The issue and how it has been addressed

2 The Amendments clarify that IFRS 9 applies to financial instruments in associates or joint ventures to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture ('long-term interests'). The Amendments also clarify that:

(a) an entity applies the requirements in IFRS 9 to long-term interests before applying the loss allocation and impairment requirements in IAS 28 ; and

(b) in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that previously arose from the loss allocation or impairment requirements of IAS 28.

3 The impact of the Amendments in the case of a loan that meets the criteria for classification as amortised cost in IFRS 9 and also meets the definition of a long-term interest in IAS 28 is that an entity:

(a) first applies the amortised cost requirements of IFRS 9 to the long-term interest, including IFRS 9's expected credit loss model for impairment;

(b) second, recognises any share of net losses of the associate or joint venture, which may result in an allocation of losses to the long-term interest;

(c) third, assesses the net investment (i.e. the equity interest combined with the long-term interest) for impairment in accordance with IAS 28/IAS 36 *Impairment of Assets* and recognises any impairment losses; and

(d) finally, ignores share of net losses or impairment allocated under IAS 28/IAS 36 when applying IFRS 9 in subsequent periods to the long-term interest (in order to maintain the integrity of the IFRS 9 amortised cost measurement).

4 The impact of the Amendments is that impairment of long-term interests is addressed from two perspectives:

(a) from the perspective of the individual financial instrument that is the long-term interest; and

(b) from the perspective of the net investment as a whole, which includes the long-term interest.

5 The notion of a net investment is used in IAS 28 in the context of other long-term interests in an associate or joint venture and also in IAS 21 *The Effects of Changes in Foreign Exchange Rates* in the context of monetary items that are receivable from or payable to a foreign operation and for which settlement is neither planned nor likely to occur in the foreseeable future.

6 Although the equity method, and therefore the Amendments, generally apply to consolidated financial statements, separate financial statements are also affected in particular circumstances. This is because, when a parent entity chooses to measure an investment in a subsidiary using the equity method applying paragraph 10(c) of

IAS 27 *Separate Financial Statements*, the parent entity would account for its long-term interests in the subsidiary applying the requirements in IAS 28, including the Amendments.

When do the Amendments become effective?

7 The Amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies the Amendments earlier, it shall disclose that fact.

Transition

8 An entity that first applies the Amendments when it first applies IFRS 9, shall apply the transition requirements in IFRS 9 to the long-term interests.

9 An entity that first applies the Amendments after it first applies IFRS 9 shall apply the transition requirements in IFRS 9 and is not required to restate prior periods to reflect the application of the Amendments. When first applying the Amendments, an entity that applies the temporary exemption from IFRS 9 in accordance with IFRS 4 *Insurance Contracts* is not required to restate prior periods to reflect the application of the Amendments. In both cases, an entity may restate prior periods only if it is possible without the use of hindsight.

10 If an entity does not restate prior periods, at the date of initial application of the Amendments it shall recognise in the opening retained earnings (or other component of equity, as appropriate) any difference between:

(a) the previous carrying amount of long-term interests at that date; and

(b) the carrying amount of those long-term interests at that date.

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 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 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 it would result in the omission of relevant information.

8 EFRAG understands that there is diversity in practice in the application of the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 28 to long-term interests. The submission to the IFRS Interpretations Committee ('IFRS IC') asked whether an entity assesses long-term interests for impairment by applying only the requirements in IAS 28, only those in IFRS 9, or a combination of the requirements in both IFRS Standards. The submission also noted that this has not been perceived to be a significant issue so far, due to the similarity of the impairment models in IAS 28/IAS 36 and IAS 39. EFRAG observes that the Amendments do not introduce any new accounting requirements: their objective is to provide clarity on the interaction of existing IFRS Standards.

9 IFRS 9 requires financial assets to be classified on the basis of the business model within which they are held and their contractual cash flow characteristics. As noted in the endorsement advice on IFRS 9, EFRAG considers that classifying financial assets in accordance with these bases provides relevant information. EFRAG notes that the Amendments clarify that IFRS 9's basis of classification and measurement applies to financial assets that are other long-term interests in accordance with IAS 28. EFRAG assesses that applying IFRS 9 impairment requirements to any long-term interest carried at amortised cost provides an appropriate basis for users to understand the extent of expected credit losses resulting from credit risk of such long-term interests. As a result, it brings relevant information for assessing the likelihood of collecting future contractual cash flows.

10 EFRAG acknowledges that applying both the IFRS 9 impairment requirements and the IAS 28 loss allocation/impairment requirements to long-term interests may limit the relevance of the resulting carrying amount of long-term interests when considered on a standalone basis. This is because the carrying amount reflects a combination of measurement requirements and can be reduced below the amount determined by applying only IFRS 9. For example, a preference share interest carried at fair value through profit or loss under IFRS 9 may be reduced to zero if losses are allocated to it in accordance with IAS 28, even if its fair value is higher than zero. Moreover, a loan carried at amortised cost under IFRS 9 may be reduced to a lower amount if impairment losses are allocated to it in accordance with IAS 28/IAS 36.

11 EFRAG acknowledges these concerns but considers that they result from existing requirements in IFRS 9 and IAS 28 and are not created by the Amendments. EFRAG also notes that the effect of applying the IAS 28 loss allocation requirements to long-term interests is to ensure that the basis to which losses are allocated are broader than equity interests and also include other non-equity interests that are in substance part of the net investment in the associate or joint venture. The effect of applying the IAS 28 impairment requirements to the combined net investment, having first applied the IFRS 9 impairment requirements to any loans forming part of the net investment, is to ensure that it cannot be carried at an amount in excess of its recoverable amount.

12 EFRAG also notes that cases of applying multiple measurement requirements to the same financial asset already exist in IFRS Standards, such as in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

13 EFRAG's overall assessment is that the Amendments result in the provision of relevant information and therefore satisfy the relevance criterion.

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 EFRAG has previously assessed that the requirements of IFRS 9 lead to reliable information and considers that this also applies when financial instruments are classified as long-term interests.

17 EFRAG's overall assessment is that the Amendments result in the provision of reliable information and therefore satisfy the reliability criterion.

Comparability

18 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.

19 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.

20 As noted in the section on relevance, there is diversity in practice in the application of the requirements of IFRS 9/IAS 39 and IAS 28 to long-term interests. In particular, the feedback from the outreach activities of the IFRS IC indicated that diverse reporting methods are applied to long-term interests and that this diversity is widespread. Although this is not a new issue, its impact is likely to be more significant following the transition from the incurred loss approach under IAS 39 to the expected credit loss model under IFRS 9. EFRAG considers that the Amendments clarify the appropriate treatment and, thus, contribute to comparability of the resulting information.

21 EFRAG considers that information will be more comparable if financial instruments with similar terms and conditions are recognised and measured on the same basis.

That is, the application of IFRS 9 to long-term interests will provide comparable information when the long-term interests are compared to other financial instruments.

22 EFRAG considers that long-term interests do not have the same risk profile as equity interests, and thus they are not economically similar. Under IAS 1 *Presentation of Financial Statements*, long-term interests are disclosed separately from the equity-accounted investment to which they relate.

23 EFRAG assesses that the transition reliefs provided are not expected to result in a significant loss of information and are substantiated on cost/benefit grounds. The transition reliefs provided are consistent with the transition requirements in IFRS 9, which have been assessed as providing comparable information in EFRAG's endorsement advice on IFRS 9.

24 The Amendments address existing divergence in respect of accounting for long-term interests. This will bring consistency in accounting for such interests, and therefore will increase comparability between entities. Therefore, EFRAG's overall assessment is that the Amendments satisfy the comparability criterion.

Understandability

25 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.

26 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.

27 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.

28 EFRAG acknowledges that the application of two different IFRS Standards to long-term interests is a somewhat complex approach. However EFRAG observes that the Amendments do not introduce new concepts; they resolve diversity arising from a lack of clarity on which IFRS Standard applies in specific circumstances. That is, they clarify that the requirements of IFRS 9 are applicable to long-term interests.

29 EFRAG acknowledges that applying the IFRS 9 impairment requirements and the IAS 28 loss allocation and impairment requirements to long-term interests has the potential to impair understandability in that the carrying amount of long-term interests can be reduced below their measurement applying IFRS 9 (refer to the discussion under relevance). Users may find it difficult to understand the resulting impact on the financial statements. EFRAG acknowledges these concerns but considers that they result from IFRS 9 and IAS 28 and are not created by the Amendments.

30 Moreover, EFRAG considers that the disclosures in IFRS 12 *Disclosure of Interests in Other Entities*, will go some way towards providing information that will enable users of financial statements to understand and evaluate the effect of long-term interests on the entity's financial position, financial performance and cash flows.

31 EFRAG's overall assessment is that the requirements in the Amendments will result in information that is understandable.

Prudence

32 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.

33 EFRAG assesses that applying IFRS 9 impairment requirements in long-term interests is a prudent approach. The impairment model of IFRS 9 uses comprehensive credit risk and forward-looking information and has been assessed to lead to prudent accounting. Recognition of 12-month expected losses from an instrument's inception brings an element of prudence. Furthermore, it recognises lifetime expected credit losses during the life of a financial asset as soon as significant credit deterioration occurs.

34 Based on the above, EFRAG has concluded that the application of the Amendments will lead to prudent accounting.

True and Fair View Principle

35 An IFRS 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.

36 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Standards. In particular, the Amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests. Some constituents raised concerns about applying both the impairment requirements in IFRS 9 to long-term interests and the impairment requirements in IAS 28/IAS 36 to the net investment (which includes long-term interests). However, EFRAG observed that those respective impairment requirements are applied to different units of account.

37 Some constituents raised concerns that applying both the impairment requirements in IFRS 9 to long-term interests and the loss allocation requirements in IAS 28 to the net investment (which includes long-term interests) could lead to the recognition of losses twice on the same asset, as the expected loss impairment requirements in IFRS 9 already reflect future losses to be incurred by the associate or joint venture. However, EFRAG notes that the IFRS 9 impairment requirements and the loss allocation requirements in IAS 28 have different measurement objectives. Applying IFRS 9 impairment requirements, an entity measures expected cash shortfalls arising from a financial instrument. IAS 28's loss allocation requirements focus on the results of operations of the associate or joint venture during the period. Moreover, EFRAG assesses that it would be difficult to separate the effect of losses from these two sources and eliminate the 'double-accounting' effect (if any).

38 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.

39 The Amendments do not include any new disclosure requirements. EFRAG has concluded that the disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss are already required in existing IFRS Standards, including IFRS 7 *Financial Instruments: Disclosures*, IFRS 13 *Fair Value Measurement* and IFRS 12.

40 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

41 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 it/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. As explained in Appendix 2, there is diversity in practice in the application of the requirements of IAS 39 and IAS 28 to long-term interests. The diversity results in part from a lack of clarity as to whether a long-term interest in the form of a loan to an associate or joint venture should be tested for impairment by applying only the requirements in IAS 28/IAS 36, or by applying a combination of the requirements in IAS 28/IAS 36 and IAS 39. However, this has not been perceived to be a significant issue so far, because the impairment models in IAS 28/IAS 36 and IAS 39 are similar. The replacement of the IAS 39 incurred loss impairment model with the IFRS 9 expected credit loss model makes this issue more significant.

4. EFRAG notes that the Amendments are designed to reduce diversity in practice in accounting for long-term interests by clarifying that IFRS 9, including its impairment requirements, applies to long-term interests. Entities that have accounted for impairment of long-term interests by applying only IAS 28/IAS 36 requirements will therefore be affected by the Amendments.

5. In its comment letter to the IASB on the exposure draft that preceded the Amendments, EFRAG agreed with the IASB's proposals to address the issue before IFRS 9 becomes effective. EFRAG also assessed that the proposals were an acceptable interpretation of existing guidance and did not involve extensive changes to this guidance. However, EFRAG also considered that the application of two different impairment models to the same long-term interest in an associate or joint venture is a somewhat complex approach and recommended that the accounting treatment of such interests should be considered more broadly in the IASB's equity method research project.

6. Pending the outcome of the IASB's equity method research project, EFRAG has 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

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.

Cost for preparers

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

9 EFRAG observes that the Amendments do not introduce any new accounting concepts; they resolve a question from constituents regarding the scope of existing IFRS Standards. Preparers that have accounted for impairment of long-term interests by applying only IAS 28/IAS 36 requirements, will incur some costs in applying IFRS 9 to long-term interests. For example, these preparers will need additional credit risk information in relation to the long-term interests that was not previously obtained, or is available but was not previously used for financial reporting purposes.

10 However, significant changes to systems are unlikely to be necessary in order to apply the Amendments, as entities will have undertaken implementation efforts in relation to IFRS 9, which is effective from 1 January 2018.

11 Moreover, in response to EFRAG's draft comment letter, some constituents observed that it would be challenging to apply IFRS 9 impairment requirements to financial instruments whose settlement is neither planned nor likely to occur in the foreseeable future. However, EFRAG notes that this challenge already exists in IFRS 9 for instruments similar to long-term interests, such as the perpetual instruments envisaged in paragraph B4.1.13 of IFRS 9. Therefore, EFRAG does not consider that applying IFRS 9 impairment requirements to long-term interests will introduce undue costs for preparers.

12 The fact that, upon transition to the Amendments, there is no requirement to restate prior periods to reflect their application, will help contain the costs for preparers in implementing the Amendments.

13 As the Amendments are not introducing new requirements in IFRS Standards, EFRAG does not expect preparers to incur additional significant ongoing costs due to the application of the Amendments, except for the collection of additional data as mentioned above. EFRAG assessed that additional costs that may arise from applying IFRS 9 to long-term interests relate primarily to IFRS 9 and not to the Amendments themselves.

14 Overall, EFRAG's assessment is that the Amendments are likely to result only in insignificant one-off and/or ongoing costs for preparers.

Costs for users

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

16 Considering that users have experience with the disclosures required by IFRS 12 and will be developing an understanding of IFRS 9, EFRAG's assessment is that implementation of the Amendments will result in some minor costs for users, which are limited to understanding the effect of the Amendments.

Benefits for preparers and users

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

18 EFRAG observed that the Amendments are designed to address the concerns of constituents about how an entity should account for long-term interests. EFRAG considered that the Amendments clarify guidance in IAS 28 that could be interpreted in different ways. Therefore, in EFRAG's view, users will benefit from a more consistent application of the requirements in IFRS Standards as this will improve the resulting financial information on long-term interests and therefore will provide a better basis for their analysis.

19 Further, preparers are expected to benefit from reducing the effort required to determine how the guidance should be interpreted.

20 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

21 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 the costs required to implement and continue to comply with the requirements of the Amendments.

Conclusion

22 EFRAG considers that the Amendments will 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.

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

24 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.

25 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.