Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
® Der Standardisierungsrat

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EFRAG
Stig Enevoldsen
13-14 Avenue des Arts
B-1210 Brussels
Belgium

Berlin, 13 February 2009

Dear Stig,

EFRAG's Assessment of the revised version of IFRS 1 First-time Adoption of International Financial Reporting Standards

The German Accounting Standards Board (GASB) appreciates the opportunity to comment on EFRAG's Assessment of the revised version of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

We agree with EFRAG's assessment that the restructuring amendments will have no effect on the financial reporting requirements of IFRS 1. We also agree with EFRAG's assessment of the restructured IFRS 1 regarding the technical criteria for endorsement, i.e. we fully support the positive endorsement advice to the European Commission regarding the adoption of the revised IFRS 1.

With respect to EFRAG's assessment of the costs and benefits that are likely to arise for preparers and for users from implementing the revised IFRS 1 we did not carry out a survey with the DAX30 companies as we normally do because of the limited relevance of IFRS 1 for the DAX30 companies and the fact that the restructured standard does not contain any new or changed technical material. The GASB as a standard setter did not itself evaluate the costs and benefits that are likely to arise for preparers and users through the implementation of the revised IFRS 1.

If you have any further questions please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

EFRAG
European Financial Reporting Advisory Group

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS OF THE REVISED VERSION OF IFRS 1 'FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS'

Comments should be sent to commentletter@efrag.org by 13 March 2009

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the revised version of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Restructured IFRS 1). In order to do that, EFRAG has been carrying out a technical assessment of the Restructured IFRS 1 against the criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the EU.

A summary of the Restructured IFRS 1 is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

German Accounting Standards Board (GASB)

(b) Are you/Is your organisation or company a:

☐ Preparer ☐ User ☒ Other (please specify)

standard setter

(c) Please provide a short description of your activity/ the general activity of your organisation or company:

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(d) Country where you/your organisation or company is located:

Germany

(e) Contact details including e-mail address:

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knorr@drsc.de

2 EFRAG's initial assessment of the Restructured IFRS 1 is that:

(a) the restructuring amendments (and wording changes consequential to those restructuring amendments) will have no effect on the financial reporting requirements of the standard. Furthermore, EFRAG agrees that the paragraphs that have been omitted from the Restructured IFRS 1 were indeed redundant. Finally, EFRAG believes that the other changes made are purely cosmetic and will have no impact on the standard's requirements (see Appendix 2).

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) it meets the technical criteria for endorsement. In other words, it is not contrary to the true and fair principle and it meets the criteria of understandability, relevance, reliability and comparability. EFRAG's reasoning is set out in Appendix 2.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(c) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Restructured IFRS 1? If there are, what are those issues and why do you believe they are relevant to the evaluation?

no

3 EFRAG is also assessing the costs that will arise for preparers and for users on application of the Restructured IFRS 1 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

The results of the initial assessment are set out in Appendix 3. To summarise, EFRAG's initial assessment is that the Restructured IFRS 1 is:

(a) is likely for some preparers in the EU to result in some insignificant additional year one costs, but that those incremental costs will be balanced out by cost savings for some EU preparers arising from the simplification of the standard. As a result, EFRAG believes that overall the Restructured IFRS 1 will have no cost implications for preparers in the EU; and

(b) unlikely to involve users in additional year one or ongoing incremental costs and is also unlikely to have any impact on the financial information provided.

Thus, EFRAG's assessment is that the benefits and costs arising for preparers and users from implementing the Restructured IFRS 1 in the EU will balance each other out. On the other hand, EFRAG believes that the Restructured IFRS 1 will result in net benefits for those jurisdictions still to transition to IFRS and also for the IASB.

Do you agree with this assessment?

☐ Yes ☐ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

As a national standard setter we did not ourselves evaluate these aspects.

4 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Restructured IFRS 1.

Do you agree that there are no other factors?

☒ Yes ☐ No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

APPENDIX 1
A SUMMARY OF THE RESTRUCTURED IFRS 1

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

2 The objective in replacing the existing IFRS 1 with the Restructured IFRS 1 is to make IFRS 1 easier to use and amend in the future. The intention is that the requirements should not change.

3 The main difference between the standards is that the existing standard has been restructured. This has been done by moving some paragraphs from the main body of the standard to appendices and grouping them as follows:

(a) Appendix B includes exceptions to the retrospective application.

(b) Appendix C includes exemptions for business combinations.

(c) Appendix D includes exemptions from other IFRSs.

4 In addition, outdated transitional provisions have been omitted. These provisions are those (such as now omitted paragraph 47E) which made reference to long past effective dates:

> 47E An entity shall apply amendments in paragraph 13(l) and 25G for annual periods beginning on or after 1 January 2005. If an entity applies the amendments to IAS 39 Financial Instruments: Recognition and Measurement—Transitional and Initial Recognition of Financial Assets and Financial Liabilities for an earlier period, these amendments shall be applied for that earlier period.

5 There have also been some minor wording changes. Some wording changes—such as changing paragraph references to appendices—were necessary consequential changes of the amendments already described. In addition, some references to GAAP or IFRS were changed from 'under' to 'in accordance with' but the intention is that those changes, and indeed all the changes being made, should have no impact on what the standard requires.

6 The Restructured IFRS 1 as issued in November 2008 required application for first IFRS financial statements for periods beginning on or after 1 January 2009. However, the IASB changed the effective date to 1 July 2009 at its December 2008 meeting to prevent potential problems arising from the interaction of this date with the effective dates of certain other IFRSs.

APPENDIX 2
EFRAG'S TECHNICAL ASSESSMENT OF THE RESTRUCTURED IFRS 1 AGAINST THE ENDORSEMENT CRITERIA

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

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the European endorsement criteria, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

1 Under the Restructured IFRS 1, some paragraphs I existing IFRS 1 have been moved, some paragraphs have been omitted, and there have been some wording changes. However, the IASB's intention in making these changes has been to make no changes to what the standard requires.

2 Therefore, when evaluating the Restructured IFRS 1, EFRAG considered the following questions:

(a) Have any of the changes made had any effect on the requirements of IFRS 1?

(b) If the answer to that question is 'no', does the Restructured IFRS 1 meet the criteria for EU endorsement?

Has any of the changes made had an effect on IFRS 1's requirements?

3 EFRAG considered whether the changes made to existing IFRS 1 have had an effect on the actual financial reporting requirements by considering first the restructuring amendments (and wording changes consequential to those restructuring amendments), then the omission of various paragraphs deemed to be redundant, then finally the other amendments made.

4 In EFRAG's view, the restructuring amendments (and wording changes consequential to those restructuring amendments) will have no effect on the financial reporting requirements of the standard. Furthermore, EFRAG agrees that the paragraphs that have been omitted from the Restructured IFRS 1 were indeed redundant. Finally, EFRAG believes that the other changes made are purely cosmetic and will have no impact on the standard's requirements.

Does the Restructured IFRS 1 meet the criteria for EU endorsement?

5 Since the Restructured IFRS 1 does not change the requirements of IFRS 1, in EFRAG's view a detailed evaluation of the revised standard is not necessary. Instead, bearing in mind that EFRAG assessed the original version of IFRS 1 when it

was first issued and concluded that it met the EU endorsement criteria and EFRAG carried out an assessment and reached the same conclusion about each of the changes subsequently made to the standard, EFRAG believes it is appropriate to limit its technical assessment of the Restructured IFRS 1 to asking whether there is any evidence from the application of the existing standard to suggest that EFRAG's assessment of the original standard and various subsequent revisions needs to be revised.

6 In other words, EFRAG has considered the application of the existing IFRS 1 to evaluate whether the Restructured IFRS 1 meets the requirements of the European Parliament and of the Council on the application of international accounting standards, in other words that the Restructured IFRS 1:

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

(b) meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG has also considered whether it is in the European interest to adopt the Restructured IFRS 1.

7 EFRAG is not aware of any evidence from the application of the original IFRS 1 or subsequent amended versions that would suggest EFRAG's prior assessment needs to be revised. IFRS 1 inevitably involves compromising comparability and the requirements of IFRS generally in the short-term by allowing the—often optional—implementation of practical alternatives to the 'usual' IFRS requirements on initial application of IFRS, but by doing that it becomes possible for more entities to adopt IFRS—and that means more comparability globally and better financial reporting generally in the longer-term.

8 EFRAG is not aware of any reason to be concerned that the balance previously struck in IFRS 1 has created problems overall in terms of relevance, reliability, understandability or comparability. EFRAG is also not aware of any reason to believe that that balance is contrary to the true and fair view principle or is not in the European interest.

Conclusion

9 For the reasons set out above, EFRAG has concluded that the Restructured IFRS 1 satisfies the criteria for EU endorsement and that EFRAG should recommend its endorsement.

APPENDIX 3
EFRAG'S EVALUATION OF THE COSTS AND BENEFITS OF THE RESTRUCTURED IFRS 1

1 EFRAG has also considered whether, and if so to what extent, implementing the Restructured IFRS 1 in the EU might involve preparers or users incurring incremental costs, and whether those costs are likely to be exceeded by the benefits to be derived from its adoption.

2 The IASB's intention is that replacing existing IFRS 1 with the Restructured IFRS 1 will not result in any change in the requirements of IFRS; the objective is only to simplify the standard so that it is easier to use and easier to amend in the future.

3 As explained more fully in Appendix 2, EFRAG has assessed the Restructured IFRS 1 and concluded that it involves no changes in the requirements.

Costs for preparers

4 As the requirements of IFRS will be unaffected by the implementation of Restructured IFRS 1, EFRAG's initial assessment is that there would be no incremental costs for EU preparers arising from the revised standard except that, for stakeholders involved with multiple transitions to IFRS, it will be necessary to read and understand the new structure and this will involve those stakeholders some additional insignificant costs in year one.

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

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

Costs for users

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

Benefits for preparers and users

8 Restructured IFRS 1 will have no impact on the information provided in financial statements. Thus, there will not be benefits arising from the implementation of Restructured IFRS 1, other than the cost savings discussed (and taken into account) already.

Conclusion

9 EFRAG's overall assessment is that:

(a) implementing the Restructured IFRS 1 will for some EU preparers result in some insignificant additional year one costs, but that those incremental costs will overall be balanced out for EU preparers as a whole by cost savings arising from the simplification of the standard. As a result, EFRAG believes that overall the Restructured IFRS 1 will have no cost implications for EU preparers;

(b) the Restructured IFRS 1 will not have cost implications for users and will also have no impact on the financial information provided.

10 Thus, EFRAG's assessment is that the benefits and costs arising for preparers and users from implementing the Restructured IFRS 1 in the EU will balance each other out. On the other hand, EFRAG believes that the Restructured IFRS 1 will result in net benefits for those jurisdictions still to transition to IFRS and also for the IASB.