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® Der Standardisierungsrat

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

Berlin, 6 May 2009

Dear Stig,

EFRAG's Assessment of
IFRIC 17 'DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS'and
IFRIC 18 'TRANSFERS OF ASSETS FROM CUSTOMERS'

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on EFRAG's Assessment of the Amendment to IFRIC 17 Distributions of non-cash assets to owners and IFRIC 18 Transfers of assets from customers.

We agree with the views set out in the assessment. As a national standard-setter we are not in a position to answer the questions regarding the costs that will arise for preparers and for users to implement the amendment and the interpretation. We therefore sent your assessment to the DAX30 entities, but we only got feedback form one company listed in the DAX30.

As attachment to this letter you will find our comments to the above mentioned EFRAG's assessments. The comments as provided by the company listed in the DAX30 have been made available to you, they were made anonymous as requested by the company.

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 THE EFRAG'S ASSESSMENTS OF IFRIC 17 'DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS'

Comments should be sent to commentletter@efrag.org or uploaded via our website by 1 May 2009

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRIC 17 *Distributions of Non-cash Assets to Owners* (IFRIC 17). In order to do that, EFRAG has been carrying out a technical assessment of IFRIC 17 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 IFRIC 17 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:

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

Germany

(e) Contact details including e-mail address:

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2 EFRAG's initial assessment of IFRIC 17 is that 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.

(a) 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) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRIC 17? 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 to implement IFRIC 17, 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 (see Appendix 3, paragraph 7) is that IFRIC 17 is:

(a) likely to involve some preparers in some additional year one and ongoing costs. However, EFRAG's initial assessment is that, when considered in aggregate, those costs will not be significant; and

(b) likely to involve users in no year one or ongoing incremental costs.

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?

We as a national standard setter are not in a position to answer this question.

4 EFRAG's initial assessment is that IFRIC 17 is likely to result in improvements in the quality of the information provided. EFRAG's initial assessment is that the benefits to be derived from applying IFRIC 17 will exceed the costs involved (Appendix 3, paragraphs 5, 6 and 8).

Do you agree with this assessment?

☐ 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?

We as a national standard setter are not in a position to answer this question.

5 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 IFRIC 17.

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 IFRIC 17

Background

1 When an entity declares a distribution (i.e. a dividend payable) to its owners, it can do so by distributing either cash or non-cash assets or by giving owners a choice as to whether cash or non-cash assets is/are distributed.

2 IFRSs do not provide specific guidance on the accounting treatment of distributions to owners. Although there are no significant issues concerning the accounting treatment of cash dividends—which are probably the most common type of distributions made to the owners of an entity—there are a number of issues that arise concerning distributions of non-cash assets to owners and IFRIC 17 seeks to address some of those issues.

Scope

3 IFRIC 17 provides guidance on the accounting by the entity making the distribution.

4 The Interpretation does not apply to transactions that involve an exchange transaction between an entity and its owners. The Interpretation also does not apply to common control transactions (i.e. distributions within the same group in which the assets being distributed are controlled by the same party or parties before and after the distribution) and neither does it apply to a distribution of a portion of an entity's ownership interest in a subsidiary when control of that subsidiary is retained.

The issues

5 IFRIC 17 provides guidance on three issues: (1) when should a liability for a dividend payable within the scope of the Interpretation be recognised, (2) how should that liability be measured and re-measured, and (3) how to account for settlement of that liability.

When should a liability for a dividend payable be recognised?

6 IFRIC 17 requires a liability for a dividend payable to be recognised when the dividend has been appropriately authorised and is no longer at the discretion of the entity.

7 What this means in practice will depend on what 'appropriately authorised' means and what it requires within the relevant legal jurisdiction. For example, in some jurisdictions the liability for the dividend payable will be recognised when it is declared by management or by the Board of Directors, and, in other jurisdictions it might require a further level of approval – for example by the shareholders of the entity.

How should the liability be measured initially and subsequently?

8 IFRIC 17 requires that, when a liability for a distribution of non-cash assets is recognised initially, it shall be measured at the fair value of the assets to be distributed. (The assets to be distributed will be measured at the lower of their carrying amount and fair value less costs to distribute.)

9 If an entity gives its owners a choice of receiving a non-cash asset or a cash alternative, the entity will need to consider the probabilities of occurrence relating to the choices the owners can elect and their respective fair values, when measuring the dividend liability at fair value of the non-cash assets to distribute.

10 At the end of each reporting period before settlement of the liability and at the date the liability is settled, an entity shall re-measure the carrying amount of the liability if the fair value of the assets to be distributed has changed and shall recognise the changes in the amount of the liability in equity (i.e. in the same place where the dividend payable was initially recognised).

How should any difference between the amount of the liability and the carrying amount of the assets to be distributed be accounted for when the liability is settled?

11 When an entity distributes the assets to its owners, it will derecognise both the assets distributed and the corresponding liability, and recognise the difference between the amount of the liability and the carrying amount of the assets in profit and loss. This 'difference' will generally be a 'gain' and will occur when the assets are carried at an amount which is lower than their fair value.

APPENDIX 2
EFRAG'S TECHNICAL ASSESSMENT OF IFRIC 17 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 When evaluating IFRIC 17, EFRAG asked itself four questions:

(a) Is there an issue that needs to be addressed?

(b) If there is an issue that needs to be addressed, is an Interpretation an appropriate way of addressing it?

(c) Is IFRIC 17 a correct interpretation of existing IFRS?

(d) Does the accounting that results from the application of the IFRIC meet the criteria for EU endorsement?

IS THERE AN ISSUE THAT NEEDS TO BE ADDRESSED?

2 EFRAG understands that at present there is significant diversity in practice on how to account for distributions of non-cash assets to the owners of an entity. Although EFRAG is of the view that distributions of non-cash assets do not occur on a regular basis—these are very specific transactions that only occur when certain significant events take place within an organisation—it understands that, when they do occur, the amounts involved can be significant. EFRAG agrees that this diversity is undesirable and is an issue that needs to be addressed.

IS AN INTERPRETATION AN APPROPRIATE WAY OF ADDRESSING IT?

3 The diversity results because existing IFRS literature lack specific guidance on how to account for distributions to owners and, as a consequence, different interpretations have evolved. EFRAG is generally of the view that in cases where an inconsistency in accounting practice is caused by differing interpretations of one or more existing standards it will generally be appropriate to deal with the issue by means of an Interpretation.

4 As explained below, the Interpretation has a limited scope and applies only to some distributions of non-cash assets to owners acting in their capacity as owners. Those distributions are the ones for which the IFRIC thought the accounting was most diverse in practice. One implication of this is that uncertainty will remain for

those distributions to owners not covered by the scope of IFRIC 17, and the result could be that economically similar situations are treated differently.

5 IFRIC 17 does not apply to common control transactions as defined by IFRSs, i.e. transactions undertaken within the same group. EFRAG understands that the IASB is carrying out a project on common control transactions which is likely to consider guidance on distributions to owners within the same group. EFRAG has considered whether it is premature for the IFRIC to be developing guidance on how to account for distributions to owners which are not common control transactions bearing in mind that the IASB will need to consider the accounting for other types of distributions that occur within the same group of entities. However, it will be several years before that project will result in a standard and, if IFRIC could not act in the meantime, that would mean several years of diversity in accounting practice and a lack of comparability for those transactions addressed in IFRIC 17.

6 IFRIC 17 contains amendments to existing standards (IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 10 *Events after the Reporting Date*). EFRAG believes that, generally speaking, amendments to standards should be made through the IASB's processes rather than through the IFRIC's processes, primarily because it believes that the IASB's due process is more extensive. However, it believes it is acceptable for more minor changes to standards—such as the amendments being made in this case—to be made by the IFRIC.

Conclusion

7 Having taken the above considerations into account, EFRAG has concluded that an Interpretation is an appropriate way of addressing the uncertainties described above relating to accounting for some distributions of non-cash assets to owners.

IS IFRIC 17 A CORRECT INTERPRETATION OF EXISTING IFRS?

8 EFRAG has considered whether IFRIC 17 is a correct interpretation of existing IFRS literature. As explained in Appendix 1, IFRIC 17 addresses three main issues involving distributions of non-cash assets to owners.

(a) When should a liability for a dividend payable be recognised?

(b) How should the liability be measured initially and subsequently?

(c) How should any difference between the amount of the liability and the carrying amount of the assets to be distributed be accounted for when the liability is settled?

Each of these issues is discussed below. The application of IFRIC 17 by analogy is then discussed.

When should a liability for a dividend payable be recognised?

9 The Interpretation clarifies that a liability for a distribution to owners is only recognised on the date when it is appropriately authorised and is no longer at the discretion of the entity making the distribution—in other words when all the parties that are required by law to approve a distribution to owners have done so. IFRIC 17 notes that such 'approval' can vary from jurisdiction to jurisdiction, and should be assessed accordingly.

10 Although existing IFRS literature does not specifically provide guidance on the accounting for distributions to owners, EFRAG believes that it is well understood that the entity must have an obligation before it can recognise a liability for that distribution. The Interpretation claries this point and indeed, by amending IAS 10 in the way it has, reinforces the message.

Conclusion

11 In EFRAG's view, the clarification provided in IFRIC 17 is a correct interpretation of exiting IFRSs.

How should the liability be measured initially and subsequently?

Initial measurement

12 IFRIC 17 states that when a liability for a distribution of non-cash assets is recognised initially it shall be measured at the fair value of the assets to be distributed. IFRIC 17 (paragraph 12) further clarifies that, if an entity gives its owners a choice of receiving a non-cash asset or a cash alternative, the entity will need to consider the probabilities of occurrence of the choices the owners can elect and their respective fair values when estimating the fair value of the liability.

13 As previously explained, existing IFRS literature does not provide guidance on how an entity should measure liabilities arising on non-cash distributions to owners. In practice IAS 37 and IAS 39 are considered helpful. The IFRIC noted that the guidance set out in IAS 37 and IAS 39 can be relevant to measuring liabilities for dividends payable and that the most relevant standard will depend on the type of asset being distributed. An issue however is that the two standards require different measurement attributes to be applied to the liabilities that fall within their scope. The IFRIC concluded that the accounting guidance in IAS 37 and IAS 39 considered individually does not provide an appropriate solution to resolve the way liabilities for distributions of non-cash assets should be measured. The objective of the guidance in IFRIC 17 is to ensure that all liabilities for non-cash distributions within the scope of IFRIC 17 are measured the same way—at the fair value of the assets that will be used to settle that liability.

14 EFRAG agrees with IFRIC's view that liabilities arising on non-cash distributions do not fit comfortably within the scope of any existing IFRS specifically. EFRAG further agrees that, *all other things being equal*, an objective should be to ensure that all such liabilities are measured in the same way and at an amount that reflects the value of the asset being distributed. EFRAG notes that measuring all such liabilities at the fair value of the assets to be distributed is a way of meeting that objective.

15 For the above reason, EFRAG believes that, *all other things being equal*, IFRIC 17's requirements for the initial measurement of liabilities for the distribution of non-cash assets to owners are a reasonable interpretation of existing IFRS.

Subsequent measurement

16 IFRIC 17 requires that, at the end of each reporting period before the liability is settled and at the date it is settled, the liability shall be remeasured to the 'new' fair value of the asset to be distributed and any change in the amount of the liability is recognised in equity (i.e. in the same place where the initial liability for the dividends payable was recognised). The IFRIC explains that other IFRSs - for example IAS

37 *Provisions, Contingent liabilities and Contingent Assets* - require an entity to remeasure liabilities at the end of each reporting period. Specifically, under IAS 37 an entity is required to adjust the carrying amount of a liability to reflect the best estimate of the liability. IAS 37 further explains that the best estimate represents the amount that an entity would rationally pay to settle an obligation at the balance sheet date or transfer it to a third party at the time.

17 Some EFRAG members were concerned at this requirement to remeasure the liability at each reporting period and on the date the liability is settled. In their view, the amount of the liability should be measured at the value of the assets to be distributed at the date of the decision to declare and appropriately authorise the distribution, because that represents the amount of the entity's obligation.

18 In their view, it can be argued (when considering dividends in kind with no cash alternative) that the subsequent measurement of the liabilities is not necessary as an entity cannot settle the dividend obligation other than by delivering the assets already held that were identified as dividend in kind and is not permitted to pay someone to assume the obligation—therefore there is no basis to revise the estimate. These EFRAG members believe that on this basis, the liability can be measured at the cost of settling the obligation, and the cost to the entity is the fair value of the assets at the date the dividend was declared and appropriately authorised.

19 However, the majority of EFRAG members believe that, all other things being equal, the objective should be to measure the liability for the distribution based on the value of the assets it will use to effect that distribution; and that therefore if the value of the assets changes, so should the value of the liability, until the moment it is settled.

The accounting mismatch

20 In addition to clarifying how IFRS should be applied to distributions of non-cash assets to owners, the scope of IFRS 5 is amended to include non-current assets or disposal groups held for distribution to owners and requires the measurement requirements in IFRS 5 to apply to those assets. As a result, if the fair value of the assets less costs to distribute the asset is higher than its carrying amount, IFRIC 17 will result in the liability to distribute that asset being measured at the asset's fair value while the asset being distributed would remain at its (lower) carrying amount. Thus, IFRIC 17 could create an 'accounting mismatch' in the financial statements of the entity undertaking the distribution if the recognition and settlement of the liability fall into different accounting periods.

21 IFRIC 17 explains that the mismatch is a consequence of IFRSs applying different measurement attributes for assets and liabilities at different times with different triggers for remeasurement. It could also be the result of different recognition requirements. (For example, if it is a business that is being transferred—as would be the case in a spin-off transaction—the liability will need to reflect the fair value of the business, which could include internally-generated goodwill and intangible assets that will not be recognised under existing IFRSs.)

22 This accounting mismatch concerned most EFRAG members, albeit to varying degrees. Those EFRAG members believe that a key objective of the accounting for an obligation to distribute non-cash assets to owners is to measure the assets and the liability at the same amount. Some believe it is a more important objective than measuring the liability based on the value of the assets to be distributed.

23 EFRAG notes that an accounting mismatch will arise only when the assets are not carried at fair value and in the relatively short period between the date the liability is recognised and the date it is settled. It also notes that in practice entities will generally arrange distribution transactions so that the period between when the liability arises and when the liability is settled is as short as possible and that the recognition and settlement of the liability do not fall within different reporting periods. Furthermore, EFRAG understands that distributions within the scope of IFRIC 17 do not occur frequently.

24 For the reasons explained above, on balance, the majority of EFRAG members concluded that in this case the accounting mismatch, though a concern, is not sufficient reason to recommend non-endorsement.

Legal matters

25 In some legal jurisdictions within Europe, there are legal constraints limiting the amount of a dividend to available profits. When a liability to distribute non-cash assets to owners is measured at an amount that is greater than the carrying amount of the assets to be distributed, it will in effect mean that profits (ie the increase in the value of the asset above cost) are being distributed that have not yet been recognised. Such a situation can result in insufficient profits being available to carry out the distribution. Of course, on settlement those profits will be recognised.

26 EFRAG agrees that, because an entity will need to consider the laws and regulations imposed by the relevant jurisdiction under which it operates before it considers a proposal to distribute a dividend, it is possible that in some cases the requirements in IFRIC 17 might mean that an entity is no longer able to make a distribution that it would have been able to make before IFRIC 17 was applicable. However, in EFRAG's view, this is not something for the IFRIC to resolve.

Conclusion

27 For the reasons stated above, EFRAG's view is that the way a liability for a distribution of a non-cash asset is measured in IFRIC 17 is, on balance, a reasonable interpretation of existing IFRS.

How should any difference between the amount of the liability and the carrying amount of the assets to be distributed be accounted for when the liability is settled?

28 When an entity settles the liability for the distribution, the entity will derecognise both the liability and assets being distributed. IFRIC 17 requires that at that time any difference between the amount of the liability and the carrying amount of the assets distributed should be recognised in profit and loss. The Interpretation explains that the carrying amount of the assets would not normally be greater than the liability for the distribution because of the recognition of impairment losses required by other IFRSs, so the 'difference' will generally be a credit balance.

29 The IFRIC's reasoning is that the difference arises not because of the distribution transaction but because of an increase in the value of the assets arising from the performance of those assets. As such, the difference is not part of a transaction with the owners in their capacity as owners; rather it is a cumulative gain on the assets that is being recognised on derecognition of the asset. The IFRIC therefore believed the credit balance should be recognised in the same way as if the entity

would sell the asset and distribute the proceeds to its owners—in profit and loss (in accordance with paragraph 68 and 71 of IAS 16).

Conclusion

30 The majority of members agree with the IFRIC 17's conclusions. However, a minority disagree, believing that the distribution of assets to an entity's owners represents a non-reciprocal transaction between an entity and its owners in their capacity as equity holders, which is different to generating a gain from a sale to a third party. In their view, the entity is in effect receiving nothing in return for the distribution and gains should not arise in such circumstances. On balance, these EFRAG members concluded that this concern is not sufficiently significant so as to recommend non-endorsement of IFRIC 17.

Applying IFRIC 17 by analogy

31 Although the scope of IFRIC 17 is in theory limited to certain distributions to owners, interpretations of this kind are always available for application by analogy. Some EFRAG members were concerned the guidance in IFRIC 17 might be applied by analogy to situations in which the accounting that would result from the application of IFRIC 17 might be less acceptable.

32 However, the majority of EFRAG members believe that application by analogy is a question of judgement and of the facts and circumstances of individual transactions—after all, a piece of IFRS literature should of course only be applied by analogy when it is applicable—and therefore cannot be answered universally for all types of arrangements.

Overall conclusion

33 Having taken into account all the arguments discussed above, EFRAG's view is that IFRIC 17 is, on balance, a reasonable interpretation of existing IFRS.

DOES THE ACCOUNTING THAT RESULTS FROM THE APPLICATION OF IFRIC 17 MEET THE CRITERIA FOR EU ENDORSEMENT?

34 Finally, EFRAG asked itself whether it believed that the information resulting from the application of IFRIC 17 would meet the criteria for EU endorsement; in other words, that:

(a) it 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) it 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 also considered whether it would be in the European interest to adopt the Interpretation.

Relevance

35 According to the Framework, information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. EFRAG

considered whether IFRIC 17 would result in the provision of relevant information; information that has predictive value, confirmatory value or both.

36 As explained earlier, the majority of EFRAG members believe that the accounting required by IFRIC 17 represents a reasonable interpretation of existing IFRS. It results in a liability being recognised as soon as an obligation to transfer non-cash assets to owners has been accepted; it requires that liability to be measured at an amount that reflects the up-to-date value of the assets to be distributed; and it requires the change in the value of the asset to be recognised in profit or loss, thereby offsetting over time the change in the value of the liability since it was incurred. It thus results in relevant information being provided to users.

Reliability

37 EFRAG also considered the reliability of the information that will be provided by applying IFRIC 17. The Framework explains that 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 that which it either purports to represent or could reasonably be expected to represent.

38 In EFRAG's view, the main issue here is whether the requirement that fair value be used to measure the liability to distribute non-cash assets would lead to difficulties in estimation and, as a consequence, unreliable information being presented in the financial statements.

39 EFRAG believes that the reliability issues that arise when estimating the fair value of liabilities under IFRIC 17 are similar to those that arise under other IFRS literature, and did not consider the requirements in IFRIC 17 to be more onerous than those in other existing IFRS literature.

Comparability

40 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.

41 The IFRIC's objective in issuing IFRIC 17 was to eliminate the current diversity in practice in the accounting for certain distributions of non-cash assets to owners. In EFRAG's view IFRIC 17 will provide information that is more comparable than hitherto and ensures that users of financial statements can compare like with like.

Understandability

42 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.

43 The majority of EFRAG members believe that the information provided by applying IFRIC 17 is understandable as it provides information that is relevant to users of financial statements and ensures that transactions that are economically similar are accounted for in a similar and transparent way. In addition, IFRIC 17 provides meaningful information about the sometimes complex transactions that fall within its scope which will be useful to users in assessing the value an entity is giving away in the form of a distribution to its owners.

True and Fair

44 For the reasons set out above, the majority of EFRAG members see no reason to conclude that IFRIC 17 is inconsistent with the true and fair view requirement.

European Interest

45 EFRAG considered whether adoption of the Interpretation might cause those entities that are using a different approach currently to incur costs in excess of the benefits expected from applying the accounting IFRIC 17 requires. Its initial assessment is that, although the implementation of IFRIC 17 would involve some costs, they are likely to be outweighed by the benefits.

Conclusion

46 After considering all the above arguments, the majority of EFRAG members have concluded that on balance IFRIC 17 satisfies the criteria for EU endorsement and EFRAG should therefore recommend its endorsement.

DISSENTING VIEWS

47 A minority of EFRAG members are not in favour of recommending endorsement of IFRIC 17. The views of those dissenting members are explained in the paragraphs below.

48 The dissenting EFRAG members believe that IFRIC 17 should not be endorsed for use in the European Union because they believe aspects of IFRIC 17 do not meet the endorsement criteria. Those aspects are:

(a) The accounting mismatch that can arise from the application of IFRIC 17. This concern is explained further in paragraph 49 below.

(b) The requirement to remeasure at each reporting date the liability arising from the obligation to distribute non-cash assets to owners. This concern is explained further in paragraph 50 below.

49 Some of the dissenting members believe that a set of accounting requirements that have the effect of creating an accounting mismatch and recognising gains when assets are distributed in exchange for nothing results in the relevance and understandability criteria not being met. They believe that, for information to be meaningful and understandable, the statement of financial position should show the same amounts for the liability and the corresponding asset. The accounting required in IFRIC 17 does not do that. These dissenting members believe that:

(a) the information that would result from such accounting would not be understandable because changes in the value of the liability will be reported but the offsetting changes in the value of the asset will not be. This will distort the entity's equity, which is a crucial element in financial reporting (for returns ratios, covenants etc);

(b) the information that would result from such accounting would not be relevant, because users of financial statements are likely to disregard the gains reported in profit or loss as a result of applying IFRIC 17 because they know there will be offsetting losses that will be recognised in later accounting periods; and

(c) if there are no benefits to users arising from such an accounting treatment, it is unlikely that the ongoing cost to be incurred by preparers to remeasure the liability at each reporting date and on the date the liability is settled will be offset by benefits.

50 Some of the other dissenting EFRAG members disagree with the requirement in IFRIC 17 to remeasure the liability at each reporting date until the liability is settled and on the date of settlement. In their view this is not required by existing IFRSs in situations which involve an entity settling a liability by delivering a non-cash asset, nor is it required in order to provide decision-useful information. These dissenting members are concerned that the accounting in IFRIC 17 might be applied by analogy to situations for which the accounting in IFRIC 17 might not be appropriate.

APPENDIX 3
EFRAG'S EVALUATION OF THE COSTS AND BENEFITS OF IFRIC 17

1 EFRAG has also considered whether, and if so to what extent, implementing IFRIC 17 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.

Costs for preparers

2 IFRIC 17 addresses three issues:

(a) When should a liability for a dividend payable be recognised?

(b) How should the liability be measured initially and subsequently?

(c) How should any difference between the amount of the liability and the carrying amount of the assets to be distributed be accounted for when the liability is settled?

3 EFRAG's initial assessment is that:

(a) IFRIC 17's requirements on when to recognise a liability for a dividend payable will not involve preparers with any incremental costs as this issue is a simple clarification of existing IFRSs and will have no implications in practice.

(b) IFRIC 17's requirements on the measurement of the liability initially and subsequently will involve some preparers in incremental costs in the year the distribution is declared and ongoing costs until the settlement date.

EFRAG notes that some preparers are currently using a different approach to that required by IFRIC 17. For those preparers the increase in costs will arise because the entity will need change the current approach and use a fair value measurement attribute to measure the transactions within the scope of IFRIC 17. However, EFRAG noted that, although implementation of IFRIC 17 would involve some costs, some entities are currently applying the approach required by the Interpretation. Furthermore, EFRAG understands that some tax jurisdictions already require an entity to provide information to the tax authorities on the fair value of an in-specie distribution (distributions in kind) that an entity makes. In those jurisdictions, the adoption of IFRIC 17 is unlikely to have any significant cost implications.

(c) IFRIC 17's requirements as to the accounting treatment of the difference that might arise on settlement between the amount of the liability and the carrying amount of the assets to be distributed will not involve preparers with any incremental costs.

4 In summary, EFRAG's initial assessment is that IFRIC 17 will result in some incremental costs for preparers in year one and on an ongoing basis until the distribution is settled—although in neither case are those costs likely to be significant.

Costs and benefits for users

5 EFRAG is not aware of any aspect of IFRIC 17 that will increase the costs users will incur in analysing the financial statements as a result of its adoption.

6 EFRAG also notes that IFRIC 17 will eliminate the diversity of accounting in respect of distributions of non-cash assets to owners, and will therefore enhance the comparability of the information provided. This will benefit users.

Conclusion

7 Summarising the comments above, EFRAG's initial assessment is that IFRIC 17 is likely:

(a) to involve some preparers in some additional year one and ongoing costs. However, EFRAG's initial assessment is that, when considered in aggregate, those costs will not be significant;

(b) to involve users in no year one or ongoing incremental costs; and

(c) to result in improvements in the comparability, and therefore the quality, of the information provided and thus bring benefits to users.

8 EFRAG's initial assessment is that the benefits to be derived from adopting IFRIC 17 are likely to outweigh the costs involved.

EFRAG
European Financial Reporting Advisory Group

INVITATION TO COMMENT ON THE EFRAG'S ASSESSMENTS OF IFRIC 18 'TRANSFERS OF ASSETS FROM CUSTOMERS'

Comments should be sent to commentletter@efrag.org or uploaded via our website by 8 May 2009

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRIC 18 *Transfers of Assets to Customers* (IFRIC 18). In order to do that, EFRAG has been carrying out a technical assessment of IFRIC 18 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 IFRIC 18 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:

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

`Germany`

(e) Contact details including e-mail address:

`Liesel Knorr`

`Zimmerstrasse 30, 10969 Berlin, Germany`

`knorr@drsc.de`

2 EFRAG's initial assessment of IFRIC 18 is that 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.

(a) 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) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRIC 18? 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 to implement IFRIC 18, 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 (see Appendix 3, paragraphs 6 and 7) is that IFRIC 18 is:

(a) likely to involve some preparers in some additional year one and ongoing costs. However, those costs are unlikely to be significant; and

(b) likely to involve users in no year one or ongoing incremental costs.

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?

We as a national standard setter are not in a position to answer this question.

4 EFRAG's initial assessment is that IFRIC 18 is likely to result in improvements in the comparability of the information provided—and in some cases also the relevance. EFRAG's initial assessment is that overall the benefits to be derived from applying IFRIC 18 will exceed the costs involved (Appendix 3, paragraphs 8 and 10).

Do you agree with this assessment?

☐ 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?

We as a national standard setter are not in a position to answer this question.

5 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 IFRIC 18.

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 IFRIC 18

1 Sometimes an entity receives one or more non-cash assets from its customers in return for goods or services that the entity agrees to provide to its customers using the asset(s) it received. For example, a real estate developer (in this example, the customer) might construct an electricity substation and transfer that substation to an electricity network provider. The customer does that so that the persons to whom it will eventually sell the houses it is building will have a connection to an electricity network and will therefore be in a position to be supplied with electricity.

2 In some other cases, an entity will receive cash from their customers and will be required to use that cash to construct or acquire an asset that it will then use to the provide goods or services to its customers. For example, an alternative arrangement to the one described in the real estate developer/electricity network provider example above could be that the real estate developer asks the electricity network provider to build the substation and reimburse it for that work.

3 IFRIC 18 provides guidance on three issues: how to account for the transferred item, how to account for the credit side of the transfer transaction, and how to account for a transfer of cash that is used to construct or acquire an item of property, plant or equipment (PPE) in a transfer transaction.[1]

How to account for the transferred item of PPE?

4 IFRIC 18 explains that, if an entity receives an item of PPE in a transfer that falls within the scope of IFRIC 18, it should recognise that item as an asset if both the item meets the definition of an asset under the IASB's Framework and the recognition criteria for PPE are met.

5 IFRIC 18 also explains that when an entity first recognises such an asset, it shall measure it at its fair value.

How to account for the resulting credit side of the transfer transaction?

6 When an entity receives an asset in a transfer falling within the scope of IFRIC 18 it will do so in return for accepting some sort of obligation to provide goods or services. As such, IFRIC 18 requires the fair value of the asset received to be credited to the statement of comprehensive income as revenue under IAS 18 *Revenue*. When that revenue is recognised will depend on the exact obligation accepted and when that obligation is fulfilled.

7 IFRIC 18 requires the entity that receives the asset to identify which services arise from the transfer transaction.

(a) When only one service is identified, the entity recognises revenue when that service is delivered in accordance with IAS 18 *Revenue*.

(b) If more than one service is identified, the entity is required to allocate the fair value of the asset it receives to each of the identified services, and apply the recognition criteria of IAS 18 to each of those services.

[1] For ease of reference, an arrangement that involves a transfer of assets from customers is referred to as a 'transfer transaction' through this document.

(c) When the service or one of those services is an ongoing type of service—such as ongoing access to a supply of goods or services—revenue is recognised based on the terms of the transfer transaction, but not exceeding the useful life of the transferred asset.

How to account for a transfer of cash?

8 Sometimes an entity will receive a transfer in the form of cash from its customer, which it must use to construct or acquire an asset that it will use to provide goods or services to its customer using that asset.

9 The accounting for a cash transfer that IFRIC 18 requires is similar to the accounting for a non-cash asset transfer as described above. That is, the entity will recognise the item of PPE it constructs or acquires when the item of PPE meets the recognition requirements under IAS 16. The entity also recognises revenue under IAS 18 when it has delivered the goods or services it has agreed to provide under the transfer transaction.

APPENDIX 2
EFRAG'S TECHNICAL ASSESSMENT OF IFRIC 18 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 When evaluating IFRIC 18, EFRAG asked itself four questions:

(a) Is there an issue that needs to be addressed?

(b) If there is an issue that needs to be addressed, is an Interpretation an appropriate way of addressing it?

(c) Is IFRIC 18 a correct interpretation of existing IFRS?

(d) Does the accounting that results from the application of the IFRIC meet the criteria for EU endorsement?

Is there an issue that needs to be addressed?

2 EFRAG understands that at present there is significant diversity in practice as to how entities receiving transferred items from their customers account for those transfers. EFRAG agrees that this diversity is undesirable and is an issue that needs to be addressed.

Is an Interpretation an appropriate way of addressing it?

3 An Interpretation is not an appropriate way of addressing diversity in accounting practice if that diversity arises because of inconsistencies between IFRS. Nor in EFRAG's view should Interpretations be used to fill a gap between IFRS if the issues involved are major issues. However, EFRAG's assessment is that the diversity in practice that is the subject of IFRIC 18 falls into neither of these categories. As such, EFRAG has concluded that an Interpretation is an appropriate way of addressing the uncertainties described above relating to how an entity should account for transfers of assets from customers that are included in the scope of IFRIC 18.

Is IFRIC 18 a correct interpretation of existing IFRS?

4 As explained in Appendix 1, IFRIC 18 addresses three main issues involving transfers of assets from customers.

(a) Accounting for the transferred item of PPE

(b) Accounting for the resulting credit side of the transfer transaction

(c) Accounting for a transfer in the form of cash

5 EFRAG has considered whether IFRIC 18 is a correct interpretation of existing IFRS literature on each of those issues.

Accounting for the transferred item of PPE

6 The Interpretation requires that, when an entity receives an item of PPE from its customer, it should recognise that item as an asset if it meets the definition of an asset that is set out in the Framework and if it meets the recognition criteria for PPE set out in IAS 16. EFRAG believes this is uncontroversial.

7 IFRIC 18 also requires the entity to measure the item of PPE recognised initially at its fair value. The Interpretation explains that paragraph 24 of IAS 16 and paragraph 12 of IAS 18 use fair value as the measurement attribute for an exchange transaction. In the IFRIC's view, when an entity receives an item of PPE from its customer, it does so in exchange for something, thus requiring the transferred asset to be measured initially at its fair value would be consistent with the way exchange transactions are accounted for under IFRS. EFRAG believes this is a reasonable interpretation of existing IFRS.

Accounting for the resulting credit side of the transfer transaction

10 IFRIC 18 provides guidance on how an entity should account for the 'credit side' of the transaction. Specifically, paragraph 13 requires the entity to account for it as revenue in accordance with IAS 18 *Revenue*. So, when an entity receives a transferred asset from a customer, it shall determine which goods or services it is obliged to deliver to the customer under the transfer transaction and shall recognise the revenue when those goods or services are delivered.

11 An entity might need to deliver one item of goods or service or more than one item. Paragraph 13 of IAS 18 states that in certain circumstances it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. The IFRIC noted that IFRS lack specific guidance on how to determine separate services in a transaction, and therefore included in paragraphs 15-17 of IFRIC 18 some indicators to provide guidance on whether separately identifiable components are involved. If more than one service is identified, the entity is required to allocate the fair value of the transferred item to each of the services it is required to deliver under the transfer transaction and account for each of the services separately.

12 A key issue in determining when to recognise the revenue arising from such transfers is whether an obligation that has been taken on in return for the transferred asset, is an obligation that is fulfilled at the time of the transfer or is one that involves ongoing responsibilities. (If the obligation is fulfilled at the time of the transfer, the related revenue will be recognised in comprehensive income at the time of the transfer. Otherwise it will not be.) Paragraphs 15-17 of IFRIC 18 provide guidance in this respect.

13 Finally, IFRIC 18 requires that, when an ongoing type of service is involved, the revenue relating to that service shall be recognised in accordance with the terms of

the transfer transaction as agreed with the customer. If the agreement with the customer does not specify a period, the period over which revenue is recognised cannot exceed the useful life of the transferred asset that is used to provide the ongoing service.

14 EFRAG has considered this guidance and believes it is a reasonable interpretation of existing IFRS.

Accounting for a transfer in the form of cash

15 As previously explained, sometimes an entity will receive cash from a customer—rather than an item of PPE—and must use that cash to construct or acquire an asset that it will use to provide goods or services to the customer.

16 The IFRIC concluded that the economic effect of a cash transfer was similar to that of a transfer of PPE and that, consequently, its accounting outcome should be similar. The cash is received in exchange for the entity accepting an obligation to provide the goods or services it will provide using the asset, and will therefore be recognised as revenue as those goods or services are provided in accordance with IAS 18. The asset constructed or acquired with the cash will be accounted for in accordance with the recognition and measurement requirements of IAS 16.

17 EFRAG agrees that this is an appropriate interpretation of existing IFRS.

Conclusion

18 EFRAG concluded that IFRIC 18 is a reasonable interpretation of existing IFRS.

Does the accounting that results from the application of IFRIC 18 meet the criteria for EU endorsement?

19 Having concluded that IFRIC 18 is a reasonable interpretation of existing IFRS, EFRAG asked itself whether it believed that the information resulting from the Interpretation's application would meet the criteria for EU endorsement; in other words, that:

(a) it 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) it 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 also considered whether it would be in the European interest to adopt the Interpretation.

Relevance

20 According to the Framework, information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. EFRAG considered whether IFRIC 18 would result in the provision of relevant information; information that has predictive value, confirmatory value or both.

21 EFRAG concluded that the application of IFRIC 18 would result in the provision of relevant information because it requires the revenue arising under the transaction to be identified and recognised in accordance with the pattern of delivery. It also requires assets that have been acquired or constructed as a result of the transaction to be recognised and appropriately measured.

Reliability

22 EFRAG also considered the reliability of the information that will be provided by applying IFRIC 18. The Framework explains that 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 that which it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

23 EFRAG considered whether the accounting in IFRIC 18 would raise concerns about risk of error. In EFRAG's view, the main issue here is whether the requirement that fair value be used to measure the item of PPE that the entity receives under the transfer transaction would lead to difficulties in estimation and, as a consequence, unreliable information being presented in the financial statements. However, EFRAG believes that the reliability issues that arise from that requirement are not more significant than those that arise under other IFRS literature and are considered acceptable.

Comparability

24 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.

25 The IFRIC's objective in issuing IFRIC 18 was to address the current diversity in practice in the accounting for transfers of assets from customers. In EFRAG's view IFRIC 18 will do that, which will enhance the comparability of the information being provided.

26 IFRIC 18 is to be applied prospectively to transfers of assets from customers received after 1 July 2009. The IFRIC explains that it decided to require prospective application because retrospective application would have involved entities needing to use historical fair values to measure the assets transferred in past periods, and it considers such a use of hindsight to be undesirable.

27 The Interpretation also permits earlier application provided the valuations and other information needed to apply the Interpretation to past transfers of assets were obtained at the time those transfers occurred. (An entity is required to disclose the date from which the Interpretation was applied.) IFRIC's reasoning here was simply that it should not prohibit earlier application if an entity wishes and is able to implement the Interpretation earlier.

28 EFRAG agrees that it is not always possible to apply the requirements in IFRIC 18 retrospectively to past transfers of assets without the use of hindsight. Therefore, EFRAG concluded that in this case it is acceptable to require the Interpretation to be applied prospectively. EFRAG also agrees that in situations where an entity has the information it needs to apply IFRIC 18 to an earlier date it should be permitted to do so, because it will have a positive impact on the comparability of information.

Understandability

29 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.

30 EFRAG considered whether the information produced by applying IFRIC 18 is likely to be readily understandable to those that use the information and concluded that it was. It noted in particular that the accounting outcome under IFRIC 18 would better reflect the economic substance of the transactions involved.

True and Fair

31 For the reasons set out above, EFRAG sees no reason to conclude that IFRIC 18 is inconsistent with the true and fair view requirement.

European Interest

32 EFRAG considered whether adoption of the Interpretation might cause those entities that are using a different approach currently to incur costs in excess of the benefits expected from applying the accounting IFRIC 18 requires. Its initial assessment is that, although the implementation of IFRIC 18 would involve some costs, they are likely to be outweighed by the benefits. EFRAG sees no other reason to believe that endorsement of IFRIC 18 would not be in the European interest.

Conclusion

33 After considering all the above arguments, EFRAG concluded that IFRIC 18 satisfies the criteria for EU endorsement and that therefore EFRAG should recommend its endorsement.

APPENDIX 3
EFRAG'S EVALUATION OF THE COSTS AND BENEFITS OF IFRIC 18

1 EFRAG has also considered whether, and if so to what extent, implementing IFRIC 18 in the EU might involve preparers and users incurring incremental costs, and whether those costs are likely to be exceeded by the benefits to be derived from its adoption.

Costs for preparers

2 EFRAG's initial assessment is that the requirements in IFRIC 18 concerning the recognition and measurement of any items of PPE deemed to have been transferred as a result of the transaction will involve those preparers either not currently recognising such assets or not measuring them at fair value with some incremental costs in the year of the transfer. If such transfers are a regular part of the entity's business model, this will be an incremental ongoing cost. EFRAG's initial assessment is however that these costs are unlikely to be significant, particularly as it would appear that the fair value measures required should be reasonably straight-forward to estimate. EFRAG also understands that some entities are currently applying the approach required by the Interpretation, and for them there will be no incremental cost.

3 EFRAG recognises that the requirements in IFRIC 18 concerning the 'credit side' of the transaction might involve some preparers in making changes to their existing accounting, either to recognise revenue that was not previously being recognised (because an asset transfer for value was not being recognised in the financial statements) or to change the pattern of revenue recognition.

(a) EFRAG's initial assessment is that any incremental costs involved in recognising revenue that was not previously recognised will be insignificant.

(b) EFRAG believes that the incremental ongoing costs involved in any change in revenue recognition pattern could be more significant because of the additional complexity that might arise in identifying the separately identifiable services involved and accounting for each one separately. There might also be some year one costs involved to set up the necessary procedures and systems. However, EFRAG's initial assessment is that for the vast majority of entities involved these costs are unlikely to be significant.

4 EFRAG's initial assessment is that the requirements in IFRIC 18 concerning the accounting treatment of transfers of cash will have very similar cost implications for preparers to those described in paragraphs 2 and 3.

5 IFRIC 18 is to be applied prospectively from 1 July 2009, although earlier application is permitted. Thus, there are no costs that entities will be required to incur to transition to IFRIC 18.

6 In summary, EFRAG's initial assessment is that IFRIC 18 will result in some year one costs and some incremental ongoing costs for some preparers, but that these costs are unlikely to be significant.

Costs and benefits for users

7 EFRAG is not aware of any aspect of IFRIC 18 that will increase the costs users will incur in analysing the financial statements as a result of its adoption.

8 EFRAG also notes that IFRIC 18 will reduce to some extent the diversity of accounting in respect to the accounting for transfers of assets entities received from their customers. This will benefit users. In some cases, the effect of IFRIC 18 will also be to enhance the relevance of the information being provided by bringing the accounting treatment of the transfers falling within the scope of IFRIC 18 into line with other revenue-generating transactions. Where that is the case, EFRAG believes that the benefit could be significant.

Conclusion

9 Summarising the comments above, EFRAG's initial assessment is as follows.

(a) IFRIC 18 is likely to involve some preparers in some additional year one and ongoing costs. Those costs are however unlikely to be significant.

(b) IFRIC 18 is likely to involve users in no year one or ongoing incremental costs.

(c) IFRIC 18 is likely to result in some improvements in the comparability of the information provided—and in some cases the relevance—and thus bring benefits to users.

10 EFRAG has found it difficult to assess the costs of implementing IFRIC 18 in the EU relative to the benefits to be derived, because the costs and benefits will vary so much depending on the accounting currently adopted and the frequency of the transactions involved. However, EFRAG's initial assessment is that the costs are likely to be highest in circumstances in which the benefits are also likely to be the highest and that overall the benefits of implementing IFRIC 18 in the EU are likely to outweigh the costs involved.