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Endorsement of IFRIC 18 *Transfer of Assets from Customers*

Introduction, background and conclusions

Attachment 1: Effect study prepared by the European Financial Reporting Advisory Group (EFRAG)

Attachment 2: Endorsement advice prepared by EFRAG

1. INTRODUCTION

The European Commission has agreed with the European Parliament that Effect Studies should be prepared for new accounting standards and interpretations up for endorsement in the European Union. The Commission Services together with European Financial Reporting Advisory Group (EFRAG) prepare these studies containing description of the accounting issues involved, results from stakeholder consultations as well as an analysis of effects of using the new accounting rules in the EU.

EFRAG has prepared an Effect Study for the interpretation IFRIC 18 *Transfers of Assets from Customers* (attached). As the EFRAG Effect Study refers to the Endorsement Advice, we also included it in attachments. In the light of the size and extent of the issue, the Commission Services asked EFRAG to prepare a small report.

This cover note contains introduction, comments and a conclusion by the Commission Services.

2. BACKGROUND ON IFRIC 18

Transfer of Assets from Customers

In the utilities industry (or other industries, e.g. IT), an entity may receive from its customers items of property, plant and equipment that must be used to connect those customers to a network and provide them with ongoing access to a supply of commodities such as electricity, gas or water. Alternatively, an entity may receive cash from customers for the acquisition or construction of such items of property, plant and equipment. Typically, customers are required to pay additional amounts for the purchase of goods or services based on usage. The following implementation questions could arise:

- (a) Is the definition of an asset met?
- (b) If the definition of an asset is met, how should the transferred item of property, plant and equipment be measured on initial recognition?
- (c) If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- (d) How should the entity account for a transfer of cash from its customer?

Clarification is needed because there are differing views as to how to account for some aspects of these kind of transactions.

How does IFRIC 18 suggest dealing with the issue?

IFRIC 18 provides guidance on the accounting for transfers of items of property, plant and equipment (PPE) from customers (or cash to acquire or construct an item PPE) and addresses three issues: how to account for the transferred item, what the other side of the entry (the

credit entry) is when the transferred item is recognised as an asset, and how to account for a transfer of cash that is used to construct or acquire an item PPE in a transfer transaction. In particular, IFRIC 18 states that:

- (a) an entity shall recognise a transferred item as an asset if the item meets the definition of an asset under the IASB's Framework and the recognition criteria for PPE are also met. The asset shall be measured at its fair value;
- (b) an amount equal to the fair value of the asset received shall be credited to the statement of comprehensive income as revenue in accordance with IAS 18 *Revenue*; and
- (c) when that revenue is recognised will depend on the exact obligation accepted and when that obligation is fulfilled.

IFRIC 18 becomes effective on or after 1 July 2009, with earlier application permitted.

EFRAG consultations

EFRAG published its initial assessment and supporting analysis on 26 March 2009. EFRAG received eight comment letters. Five respondents agreed with EFRAG's assessment of the benefits of implementing IFRIC 18 and the associated costs involved for users and preparers. Three respondents did not comment specifically on EFRAG's initial assessment of the costs and benefits of implementing IFRIC 18 in the EU, but supported EFRAG's recommendation that IFRIC 18 be adopted for use in Europe.

3. EFFECT ANALYSIS AND CONCLUSIONS

Main points identified in the EFRAG Effect Analysis

Improvement in consistency and in comparability

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.

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.

Reliability

EFRAG concluded that the application of IFRIC 18 would result in the provision of relevant information because it requires 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.

The Commission Services agree with the EFRAG analysis and conclude that IFRIC 18 will contribute to a more consistent application of the standard and will provide information that is relevant for users. It also satisfies the reliability and understandability criteria.

Costs for preparers and users

EFRAG's analysis gives an overview of the expected incremental costs for preparers and cost benefit effects for users. Implementing IFRIC 18 is likely to involve some preparers in some circumstances in additional year one and ongoing costs. Those costs are however unlikely to be significant; it is likely to involve users in no year one or ongoing incremental costs; and it is likely that the implementation of IFRIC 18 will result in some improvements in the comparability of the information provided – and in some cases the relevance – and thus bring benefits to users.

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 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.

Based on the EFRAG analysis the Commission Services note that although the incremental costs of applying IFRIC 18 may be significant for some companies, when viewed as a whole the benefits derived from IFRIC 18 are likely to outweigh the costs that will arise from its implementation.

4. OVERALL COST-BENEFIT CONSIDERATIONS AND COMMISSION SERVICES CONCLUSIONS

On the basis of EFRAG's Effect Study, the Commission Services have considered the main costs and benefits of endorsing IFRIC 18. The Services conclude that the benefits of the Interpretation outweigh the costs introduced by the Interpretation.

The Commission services believe that IFRIC 18 will have positive cost-benefits effects and that it should therefore be endorsed in the EU without delay.



The costs and benefits of implementing IFRIC 18 *Transfers of Assets from Customers*

Introduction

- 1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG will gather that information in the case of IFRIC 18 *Transfers of Assets from Customers*.
- 2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly extensive work in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of IFRIC 18, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. (The results of the consultations EFRAG has carried out seem to confirm this.) Therefore, as explained more fully in the main sections of the report, the approach EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing IFRIC 18 in the EU, to consult on the results of those initial assessments, and to finalise those assessments in the light of the comments received.

EFRAG's endorsement advice

- 3 EFRAG also carries out a technical assessment of all new and revised Standards and Interpretations issued by the IASB and IFRIC against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

A SUMMARY OF IFRIC 18

- 4 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 receives. 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.

- 5 In some other cases, an entity will receive cash from its customers and will be required to use that cash to construct or acquire an asset that it will then use to 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 could be that the real estate developer asks the electricity network provider to build the substation and reimburses the network provider for that work.
- 6 IFRIC 18 provides guidance on the transfers of assets for entities that receive items of PPE. It addresses 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?

- 7 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.
- 8 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?

- 9 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.
- 10 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.
 - (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, although the period over which it is recognised shall not exceed the useful life of the transferred asset.

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

How to account for a transfer of cash?

- 11 Sometimes an entity will receive a transfer in the form of cash from its customer that it must use to construct or acquire an asset that it will use to provide goods or services to its customer using that asset.
- 12 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.

EFRAG's initial analysis of the costs and benefits of IFRIC 18

- 13 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing IFRIC 18, both in year one and in subsequent years. The results of EFRAG's initial assessment can be summarised as follows. The implementation in the EU of IFRIC 18 is likely to:
 - (a) involve some preparers in some additional year one and ongoing costs. Those costs are however unlikely to be significant;
 - (b) involve users in no year one or ongoing incremental costs; and
 - (c) result in some improvements in the comparability of the information provided – and in some cases the relevance – and thus bring benefits to users.
- 14 EFRAG published its initial assessment and supporting analysis on 26 March 2009. It invited comments on the material by 8 May 2009. In response, EFRAG received eight comment letters. Five respondents agreed with EFRAG's assessment of the benefits of implementing IFRIC 18 and the associated costs involved for users and preparers. The other three respondents did not comment specifically on EFRAG's initial assessment of the costs and benefits of implementing IFRIC 18 in the EU, but supported EFRAG's recommendation that IFRIC 18 be adopted for use in Europe.

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

- 15 Based on its initial analysis and stakeholders' views on that analysis, EFRAG's detailed final analysis of the costs and benefits of IFRIC 18 is presented in the paragraphs below.

Costs for preparers

- 16 EFRAG's 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 in 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 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.

- 17 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 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 assessment is that for the vast majority of entities involved these costs are unlikely to be significant.
- 18 EFRAG's 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 16 and 17.
- 19 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.
- 20 In summary, EFRAG's 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.

4.1.1. Costs and benefits for users

- 21 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.
- 22 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 receive from their customers and which are within the scope of IFRIC 18. 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

- 23 Summarising the comments above, EFRAG's 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.

24 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 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.

Stig Enevoldsen

EFRAG Chairman

27 May 2009

Attachment 2



Jörgen Holmquist
Director General
European Commission
Directorate General for the Internal Market
1049 Brussels

27 May 2009

Dear Mr Holmquist

Adoption of IFRIC 18 Transfers of Assets from Customers

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, we are pleased to provide our opinion on the adoption of IFRIC 18 *Transfers of Assets from Customers* (IFRIC 18), which was published in January 2009. The interpretation was proposed in a draft interpretation on which EFRAG commented.

IFRIC 18 provides guidance on the accounting for transfers of items of property, plant and equipment (PPE) from customers (or cash to acquire or construct an item PPE) and addresses three issues: how to account for the transferred item, what the other side of the entry (the credit entry) is when the transferred item is recognised as an asset, and how to account for a transfer of cash that is used to construct or acquire an item PPE in a transfer transaction. Specifically, it states that:

- (d) an entity shall recognise a transferred item as an asset if the item meets the definition of an asset under the IASB's Framework and the recognition criteria for PPE are also met. The asset shall be measured at its fair value;
- (e) an amount equal to the fair value of the asset received shall be credited to the statement of comprehensive income as revenue in accordance with IAS 18 *Revenue*; and
- (f) when that revenue is recognised will depend on the exact obligation accepted and when that obligation is fulfilled.

IFRIC 18 becomes effective on or after 1 July 2009, with earlier application permitted.

EFRAG has carried out an evaluation of IFRIC 18. As part of that process, EFRAG issued for public comment an initial evaluation of IFRIC 18 against the EU endorsement criteria and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG supports IFRIC 18 and has concluded that it meets the requirements of Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- 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
- 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.

For the reasons given above, EFRAG believes that it is in the European interest to adopt IFRIC 18 and, accordingly, EFRAG recommends its adoption. EFRAG's reasoning is explained in the attached 'Appendix – Basis for Conclusions'.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman

APPENDIX BASIS FOR CONCLUSIONS

This appendix sets out the basis for the conclusions reached and for the recommendation made by EFRAG on IFRIC 18 Transfers of Assets from Customers (IFRIC 18).

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?
- 2 Having formed tentative views on the issues and prepared an initial evaluation, EFRAG issued that initial evaluation for comment on 26 March 2009 and asked for comments on it by 8 May 2009. EFRAG has considered all the comments received in response to this invitation, and the main comments received are dealt with in the discussion in this appendix.

Is there an issue that needs to be addressed?

- 3 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?

- 4 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 that are included in the scope of IFRIC 18.

Is IFRIC 18 a correct interpretation of existing IFRS?

- 5 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
- 6 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

- 7 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.
- 8 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

- 9 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.

- 10 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 lacks 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.
- 11 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.
- 12 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. If the agreement with the customer does not specify a period, the period over which revenue is recognised shall not exceed the useful life of the transferred asset that is used to provide the ongoing service.
- 13 EFRAG has considered this guidance and believes it is a reasonable interpretation of existing IFRS.

Accounting for a transfer in the form of cash

- 14 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.
- 15 The IFRIC concluded that the economic effect of a cash transfer is 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.
- 16 EFRAG agrees that this is an appropriate interpretation of existing IFRS.

Conclusion

- 17 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?

- 18 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

- 19 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.
- 20 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

- 21 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.
- 22 EFRAG considered whether the accounting in IFRIC 18 would raise reliability concerns. 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 no more significant than those that arise under other IFRS literature and are considered acceptable.

Comparability

- 23 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.

- 24 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. That will enhance the comparability of the information being provided.
- 25 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.
- 26 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.
- 27 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

- 28 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.
- 29 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

- 30 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

- 31 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 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

- 32 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.