Effects Analysis Consultative Group

Report to the Trustees of the IFRS Foundation

November 2014

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In the February 2012 report of the Trustees' Strategy Review 2011, the Trustees of the IFRS Foundation asked the International Accounting Standards Board (IASB) to set up a comprehensive body to support the IASB in implementing (or further embedding) effects analyses within the IASB's due process. The report states:

> The Trustees believe that the organisation could benefit from receiving guidance in developing an agreed methodology for field testing and effects analyses. Consequently, the Trustees are recommending the establishment of a working group from the international community, chaired by the IASB, to develop an agreed methodology for field testing and effects analyses.

In 2013 the Effects Analysis Consultative Group was formed.

Consultative Group

Members

David Andrews, Head of Organisational Development, Financial Reporting Council, (UK)

Professor Esther Bay, former member of the Accounting Standards Council, (Singapore)

Ewa Bialkowska, IFRS Director, KPMG, (UK)

Suzanne Q. Bielstein, Director—Planning and Support, Financial Accounting Standards Board, (US)

Philippe Bui, former Director of Research, Autorité des normes comptables, now Senior Adviser Service of Professional Specialized Financing, Banque de France, (France)

Keryn Chalmers, Head of Accounting and Finance, Monash University, (Australia)

Professor Daniël Coetsee, Professor in Financial Accounting, University of Johannesburg, (South Africa)

Murtaza Dean, Senior Manager, Professional Standards, Colins Barrows, (Canada)

Pieter Dekker, former Technical Director, European Financial Reporting Advisory Group, now Executive Director, Ernst & Young, (UK)

Tommaso Fabi, Technical Director, Organismo Italiano di Contabilità, (Italy)

Chris Innes-Wilson, Group Chief Accountant, Standard Chartered Bank, (UK)

Dr Alexei Estrella Morales, Doctor en Contabilidad y Auditoria, Arista Gestoría Organizacional, (Ecuador)

Professor Claes Norberg, Director of Accountancy, Confederation of Swedish Enterprise, (Sweden)

Lucilene Pedro, Assistant Professor in Accounting, Universidade Paulista, (Brazil)

Professor Roman Weil, Professor Emeritus, Chicago Booth School of Business, Chicago University, (US)

Observers

Christelle Fontbonne Proniewski, European Commission

Patrick Parent, IOSCO

Role of the members and observers

The members and observers were selected for membership of the Consultative Group because of their expertise and experience with standards, regulation and effects analysis.

The views expressed by members, at meetings and in their support for this report, are the views of the individuals and should in no way be seen as representing the official views of the organisations for which they work. Those organisations have their own procedures in place for reaching and conveying official views.

IASB members

Ian Mackintosh (Vice-Chairman)

Martin Edelmann

Patrick Finnegan

Chungwoo Suh

IASB staff

Alan Teixeira, Senior Technical Director

IFRS Foundation staff

David Loweth, Director for Trustee Activities

Meetings

The Consultative Group met in face-to-face meetings on 20 May 2013, 19 July 2013 and 18 November 2013 and by conference call on 7 November 2013.

Process

IASB staff were responsible for organising the meetings, which were chaired by the IASB, with face-to-face meetings being held in London at the offices of the IASB.

IASB staff drafted the report, with drafts being distributed to the Consultative Group members and observers. The participants provided written feedback and the drafts were also discussed in the face-to-face and teleconference meetings of the Consultative Group.

Effects Analysis Consultative Group

November 2014

To the Trustees of the IFRS Foundation

On behalf of the members of the Effects Analysis Consultative Group, I am pleased to present our report to the Trustees on assessing and reporting the likely effects of proposed International Financial Reporting Standards (IFRS).

Part of the responsibility of the International Accounting Standards Board (IASB) in developing high quality, understandable, enforceable and globally accepted financial reporting standards is explaining to those affected by IFRS how it assessed the likely implications of new requirements. This includes explaining how general purpose financial reports are likely to change because of the new requirements and why it considers those changes to be justifiable, by demonstrating how it assessed the likely effects on the direct costs to preparers of meeting the new requirements and the related costs to users.

Just as IFRS needs to be globally accepted, it is also important that the steps taken and processes applied by the IASB in developing the Standards should be globally accepted. The purpose of the Effects Analysis Consultative Group has been to provide advice that the IASB can use to improve how it undertakes field testing and reports effects analysis, with this in mind.

We believe that confidence in the standard-setting process can be improved, by improving how the IASB undertakes and assesses fieldwork and how it shares the results of its fieldwork.

We hope that our observations and recommendations will be helpful to the Trustees and to the IASB.

On a personal note, and on behalf of the IASB, I am extremely grateful to the external members of the Consultative Group for their constructive and enthusiastic participation in the group's deliberations and in providing detailed and thoughtful comments on earlier drafts of this report.

Ian Mackintosh, IASB Vice-Chairman
Chairman of the Effects Analysis Consultative Group

Contents

Background

1. The International Accounting Standards Board (IASB) is charged with developing financial reporting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information to make economic decisions.[1]

2. In the February 2012 report of the Trustees' Strategy Review 2011, the Trustees of the IFRS Foundation asked the IASB to set up a comprehensive body to support the IASB in further embedding effects analyses within the IASB's due process. The report states:

> The Trustees believe that the organisation could benefit from receiving guidance in developing an agreed methodology for field testing and effects analyses. Consequently, the Trustees are recommending the establishment of a working group from the international community, chaired by the IASB, to develop an agreed methodology for field testing and effects analyses.

3. In 2013 the Effects Analysis Consultative Group (the 'Consultative Group') was formed to provide advice to the IASB on how it should consider the effects of changes it develops to its financial reporting requirements—International Financial Reporting Standards (IFRS). This report is intended to support the IASB in further embedding effects analyses within the IASB's due process, with the objective of strengthening the standard-setting process.

4. This report does not prescribe a particular set of steps or tasks for the IASB to follow. Individual members of the Consultative Group place different weights on some factors, types of evidence and analysis. The Consultative Group expects that the IASB will need to weigh the factors according to the nature of the project and the sources of evidence available to it.

5. The IASB has due process requirements aimed at ensuring that its activities are carried out in an open and transparent manner. Application of the principles set out in this report within this due process framework will allow interested parties to assess the work undertaken by the IASB and the appropriateness of its analysis.

6. The Consultative Group considers that assessing and explaining the likely effects of a new financial reporting requirement is part of good standard-setting. The IASB is assessing and explaining how general purpose financial reports are likely to change because of the new requirements being proposed. The IASB is also committed to explaining why those changes will improve the quality of general purpose financial reports and why it considers those changes to be justifiable.

7. The IASB needs to be satisfied that it has considered the likely effects that are relevant to a particular proposed Standard and has collected sufficient information, and undertaken sufficient analysis, to be confident in its assessment. Doing so in an open and transparent manner will help other parties affected by the work of the IASB to understand the decisions and trade-offs made by the IASB and will increase confidence in the standard-setting process.

8. The members of the Consultative Group also understand that the incorporation of effects analyses into the IASB's work processes has evolved over the last few years. Some of the projects that are now close to completion might not have been developed along the lines described in this report. The Consultative Group's recommendations primarily relate to new projects being developed by the IASB, and to new stages of existing projects.

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1 IFRS Foundation *Constitution*, paragraph 2.

Recommendations

9. This section sets out a summary of the main recommendations of the Consultative Group. The sections that follow set out in more detail the thinking and analysis supporting them.

General purpose financial reports

10. The IFRS Foundation's *Constitution* (the 'Constitution') states:

> 2 The objectives of the IFRS Foundation are:
>
> (a) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions.
>
> (b) to promote the use and rigorous application of those standards.
>
> (c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.
>
> (d) to promote and facilitate adoption of International Financial Reporting Standards (IFRSs), being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.[2]

11. The IASB is the body within the IFRS Foundation that is responsible for developing financial reporting standards (IFRS). Its *Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*') sets out the concepts that underlie the preparation and presentation of financial statements for external users. The *Conceptual Framework* states:

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.[3]

Focus and scope of effects analysis

12. The objective of general purpose financial reporting relates to improving the quality of financial information for the purposes of making decisions about evaluating the entity's management or about providing resources to the entity. The focus of the IASB's assessment should be on how a proposed financial reporting change is likely to affect that objective.

13. The IASB is not required to assess any possible broader economic consequences, because these are beyond its objective. Changes to IFRS change how an entity reports transactions and events in its financial reports, which is expected to lead to better decisions by investors relying on these reports.

14. Changes to reporting requirements can also cause preparers to bear costs in complying with IFRS and users of the financial reports to bear costs to absorb and process the new information.

2 IFRS Foundation *Constitution*, paragraph 2.
3 *Conceptual Framework,* paragraph OB2.

15. The Consultative Group thinks the IASB should assess and explain how general purpose financial reports are likely to change because of the new requirements, and why those changes will improve the quality of general purpose financial reports. It also thinks that the IASB should explain why it considers those changes to be justifiable, demonstrating how it assessed the likely effects on the direct costs to preparers of meeting the new requirements and the related costs to users (see paragraphs 41–58).

Other users of general purpose financial reports

16. The *Conceptual Framework* acknowledges that regulators and members of the public other than investors and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.

Financial stability

17. As a condition of membership of the Financial Stability Board (FSB), the IASB is committed to pursue the maintenance of financial stability, maintain the openness and transparency of the financial sector and implement international financial standards.[4] The objective or mandate of the FSB is to promote the stability of financial markets as a whole. The IASB's responsibility or objective is to focus on ensuring that investors have high quality, transparent and comparable information (general purpose financial reports) about individual entities.[5]

18. The Trustees of the IFRS Foundation consider these objectives to be complementary:

> The confidence of all users in the transparency and integrity of financial reporting is critically important to the effective functioning of capital markets, efficient capital allocation, global financial stability and sustainable economic growth.[6]

The Consultative Group supports this conclusion.

19. Some prudential supervisors have chosen to use general purpose financial reports as the basis for numbers reported in regulatory filings for supervisory purposes. In those cases, the recognition and measurement principles in IFRS affect how information is reported in regulatory filings.

20. To help the FSB achieve its objectives, the Consultative Group thinks that the IASB should, without compromising its own objectives, continue to engage with the FSB to ensure that the FSB is aware of proposed changes to financial reporting and that the FSB has sufficient time to assess and address how changed financial reporting information should be incorporated into the FSB's own monitoring systems (see paragraphs 59–70).

Explicit and implicit references to IFRS in contracts and regulation

21. The objective of general purpose financial reports prepared using IFRS is to provide financial information relevant to those making decisions about providing resources to the entity.

22. The IASB recognises that other parties use general purpose financial statements for their own objectives—including determining taxable income, determining distributable reserves, statistical purposes and regulation.

23. The Consultative Group considers that the IASB should not tailor financial reporting to meet the needs of these other parties. The IASB has a responsibility to allow these other parties to observe changes to financial reporting that could have implications for their activities, and a responsibility to give them an opportunity to provide input into that process.

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4 FSB, *Mandate*.
5 IFRS Foundation *Constitution*, paragraph 2, and the *Conceptual Framework*, paragraph OB2, referred to in paragraphs 10 and 11.
6 IFRS Foundation Annual Report, 2011.

24. The Consultative Group thinks it is important that the IASB should maintain strong and open communication links with other accounting standard-setters for this purpose (see paragraphs 71–84).

The needs of other accounting standard-setters

25. Some other accounting standard-setters have additional responsibilities within their local jurisdiction. The Consultative Group considers it the responsibility of those other accounting standard-setters, and not the IASB, to meet those additional requirements.

26. Although it is not the responsibility of the IASB to include in its assessment of effects matters that are specific to each jurisdiction, the Consultative Group thinks that the IASB should work co-operatively with local standard-setters so that it can plan its fieldwork and outreach to see whether there are opportunities to organise fieldwork in ways that are mutually beneficial for the IASB and those local jurisdictions (see paragraphs 85–91).

Fieldwork

Nature of fieldwork

27. The IASB should plan its fieldwork so that is proportionate to the changes in financial reporting being proposed. A more pervasive or significant potential change would normally warrant a more comprehensive assessment programme.

28. The type, and depth, of fieldwork undertaken should also reflect the stage of development of the project.

29. At the research stage, the principal focus of the IASB should be on understanding the nature of the problem being addressed—ie defining the problem—including collecting evidence to help the IASB assess the extent and economic significance of the problem. The analysis should focus on the perceived deficiency being addressed and on possible solutions, particularly the benefits of developing new financial reporting requirements.

30. At the Exposure Draft stage the IASB is setting out a specific proposal for a new or revised Standard. Accordingly, the fieldwork and analysis should be focused on the potential benefits and other implications of implementing that proposal, and on assessing any alternatives that are being considered.

31. At the finalisation of a Standard, the IASB is explaining the basis for its decisions and what it expects to be the effects of the changes to financial reporting requirements. Accordingly, the fieldwork and analysis should explain how the IASB has made its final decisions and how they improve the quality of financial reporting (see paragraphs 92–114).

Global assessment

32. The Consultative Group thinks that the IASB has a responsibility to give full and fair consideration on a global basis to the perspectives of those affected by IFRS. The IASB should aim to undertake consultation that is geographically broad-based so that its Standards are written with principles that can be applied globally. Other accounting standard-setters can help by providing the IASB with analysis and information about factors and possible effects that might be unique to their jurisdiction.

33. However, the IASB must make its assessment from a global perspective, to determine whether new financial reporting requirements are justifiable on a global basis, rather than from the perspective of any individual jurisdiction. There might be circumstances in which the net benefits of a new requirement are negligible (or even create a net burden) for entities in a particular jurisdiction (see paragraphs 115–118).

Co-operation with other accounting standard-setters

34. The Consultative Group recommends that the IASB should consider ways to increase the involvement of other accounting standard-setters in local fieldwork and encourage them to share the results with the IASB (see paragraphs 119–121).

Reporting the likely effects

Availability of fieldwork data

35. The Consultative Group recommends that the IASB should make available information about the nature of fieldwork and outreach that it has undertaken. The IASB should take steps to ensure that fieldwork instruments such as surveys and case studies are easily accessible on the project website. Such information should also include identifying as clearly and openly as possible, while respecting requests for confidentiality, who has participated in the fieldwork, and the evidence the IASB has collected. This information should be made available throughout the development of the project.

36. When it is not possible for the IASB to disclose the identities of individual participants in fieldwork, the IASB should provide as much information as it is able to for outside parties to be able to understand the profile of fieldwork participants (see paragraphs 122–125).

Assessing and reporting the likely effects

37. The format of the analysis of the likely effects of a proposed change in financial reporting should reflect the stage of the proposals.

38. In the research stage, an analysis of the perceived deficiency being addressed and the possible solutions are an integral part of the discussion or research paper.

39. At the Exposure Draft stage, the Basis for Conclusions should set out why the IASB is proposing a particular change to financial reporting requirements, including referring to the evidence it has collected or the outreach it has undertaken.

40. When a new Standard is issued, the IASB should generally prepare a separate Effects Analysis Report. A well-focused document that summarises the likely effects and how the IASB made the assessments can help those with a particular interest in this work. Any such report should be included with the package of documents balloted by the IASB (see paragraphs 126–135).[7]

7 The process by which the IASB formally votes to issue a Standard, and the material that accompanies it, is called the balloting process, whereby each IASB member votes on whether to approve the package for release.

Principles for assessing and reporting the likely effects of new financial reporting requirements

The role and responsibilities of the IASB

General purpose financial reports

41. The Constitution and the *Conceptual Framework* set out the objectives of the IASB and of general purpose financial reports.

42. The role of the IASB is to develop high quality, understandable, enforceable and globally accepted financial reporting standards. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.[8] The *Conceptual Framework* states that for financial information to be useful, it must be 'relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.'[9] Part of faithful representation is ensuring that the information is neutral or 'without bias'. The information should not be 'slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users.'[10]

43. When the IASB changes financial reporting requirements, it changes the way in which financial statements depict particular transactions or events. Change rarely comes without a cost. Investors will be provided with different information to support their decisions. Preparers may need to modify their systems to meet the new information requirements, and they might account for the transactions or activities differently internally from the way the IASB plans to specify the accounting in a new Standard.

44. The IASB uses Discussion Papers and the Basis for Conclusions in Exposure Drafts and Standards to explain the steps it took to satisfy itself that the proposed financial reporting requirements will improve financial reporting in a cost-beneficial manner. Cost is identified by the IASB as a constraint on useful financial reporting. The *Conceptual Framework* states:

> **The cost constraint on useful financial reporting**
>
> QC35 Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.
>
> QC36 Providers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.
>
> QC37 Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. This results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. An individual investor, lender or other creditor also receives benefits by making more informed decisions. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.

8 The full text of these objectives is reproduced in paragraphs 10 and 11.
9 *Conceptual Framework,* paragraph QC4.
10 *Conceptual Framework,* paragraph QC14.

QC38 In applying the cost constraint, the Board assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in developing a proposed financial reporting standard, the Board seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that standard. In most situations, assessments are based on a combination of quantitative and qualitative information.

QC39 Because of the inherent subjectivity, different individuals' assessments of the costs and benefits of reporting particular items of financial information will vary. Therefore, the Board seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities. That does not mean that assessments of costs and benefits always justify the same reporting requirements for all entities. Differences may be appropriate because of different sizes of entities, different ways of raising capital (publicly or privately), different users' needs or other factors.

45. The *IASB and the IFRS Interpretations Committee Due Process Handbook* (the 'Handbook') identifies the matters the IASB should consider when assessing the likely effects of a proposed Standard. The term 'effects' was introduced into the Handbook in July 2009. At the time, the Trustees stated that the change reflected 'the importance of considering effects beyond just costs and benefits'. The Trustees did not elaborate on which effects should be considered by the IASB.

46. In changing the term from 'costs and benefits' to 'effects' the Trustees decided that it is important to consider effects beyond costs and benefits. The revisions made to the Handbook in 2012 provided clarification on what the Trustees meant by 'effects':

3.75. In forming its judgement on the evaluation of the likely effects, the IASB considers issues such as:

(a) how the proposed changes are likely to affect how activities are reported in the financial statements of those applying IFRS;

(b) how those changes improve the comparability of financial information between different reporting periods for an individual entity and between different entities in a particular reporting period;

(c) how the changes will improve the user's ability to assess the future cash flows of an entity;

(d) how the improvements to financial reporting will result in better economic decision-making;

(e) the likely effect on compliance costs for preparers, both on initial application and on an ongoing basis; and

(f) how the likely costs of analysis for users (including the costs of extracting data, identifying how the data has been measured and adjusting data for the purposes of including them in, for example, a valuation model) are affected. The IASB should take into account the costs incurred by users of financial statements when information is not available and the comparative advantage that preparers have in developing information, when compared with the costs that users would incur to develop surrogate information.

47. Despite this clarification, the extent to which the IASB should consider possible broader economic and social consequences in developing financial reporting requirements is not uncontroversial. The next sections of this report focus on the consequences of financial reports.

Financial statement effects and direct costs

48. The main, direct, effects of financial reporting requirements considered by the IASB (see paragraph 3.75 of the Handbook reproduced in paragraph 46) are:

    (a) how the proposed changes are likely to change how activities are reported in the financial statements of those applying IFRS; and

    (b) how the costs of preparing and using the information in the financial reports are likely to change.

49. These effects are a direct consequence of the financial reporting requirements. There is no doubt that the IASB should consider these effects before it finalises any change to a Standard.

50. Preparation costs include the costs of collecting and processing information, seeking independent expertise and professional advice and auditing. Changes in the recognition or measurement requirements in a Standard could increase or decrease preparation costs. Sometimes a change in the requirements of a Standard will cause entities to change their accounting systems. In other cases, the requirements have ongoing cost implications. For example, changing a Standard in a way that aligns its requirements more closely with how management accounts for a transaction is likely to reduce ongoing costs. If the requirements in a Standard are not clear, or there is no guidance, a preparer might need to seek independent advice and engage with its auditors to resolve the uncertainty about how to account for a particular type of transaction. These costs should decrease if the requirements in the revised Standard are clearer.

51. Direct costs incurred by users of financial statement information include the costs of extracting data, identifying how the data has been measured and adjusting data as necessary for the purposes of making decisions about providing resources to an entity or evaluating the accountability of the entity's management. The more work a user has to do to get the data into a form suitable for its purposes, the higher the analysis costs. Similarly, a new requirement for entities to provide information that users have previously been estimating from other sources should reduce information-gathering and processing costs for those users and provide them with a more direct measure of that information. There can be a multiplier effect here, because a deficiency in reporting requirements can require many investors to incur costs assessing each entity.

Economic and other consequences

52. Financial reporting standards are expected to have consequences. The consequences of new financial reporting requirements considered by the IASB (see paragraph 3.75 of the Handbook reproduced in paragraph 46) are:

    (a) how those changes improve the comparability of financial information between different reporting periods for an individual entity and between different entities in a particular reporting period;

    (b) how the changes will improve the user's ability to assess the future cash flows of an entity; and

    (c) how the improvements to financial reporting will result in better economic decision-making.

53. When investors, existing or potential, receive new information from general purpose financial reports, that information could influence their assessment of how the management have discharged their stewardship responsibilities, what the cost of capital of the entity is, or how much interest to charge on a loan. This, in turn, could influence how the investor votes at a shareholder meeting or their decision to buy, sell or hold shares in the entity.

54. Financial reporting requirements might require entities to disclose information that is helpful to both their investors and their competitors. In such cases, the competitive advantage an entity enjoys could be reduced. This is a cost to the entity—sometimes referred to as proprietary costs.

55. Some entities might also change how they conduct their activities, perhaps by no longer investing in some types of assets or by changing how they contract for some activities. Financial reporting requirements not only capture and convey information about events; they can also cause changes in the way people behave. In comment letters to the IASB on a proposal to amend the financial reporting requirements for leases, some respondents stated that, if implemented, the changes would cause entities to no longer enter into some types of leases. One study concluded that this would have 'adverse economic impacts including the loss of thousands of jobs'.[11] The IASB argued that the proposals would improve financial reporting, because they would remove an artificial distinction between finance and operating leases that 'leads to an underestimation of long-term debt'. In another example, some commented that changes to the financial reporting requirements for defined-benefit pension schemes contributed to the observable scaling down of such schemes. This is because changes to the reporting requirements led to the recognition of the pension obligations by the sponsoring entity in their financial statements. It is possible that having to recognise these obligations contributed, at least in part, to the timing of the closing of membership to some such schemes. However, the IASB considers that recognising pension obligations on the balance sheet has increased the transparency of such obligations and so has improved information available to investors.

56. Financial reporting requirements may also reveal information that causes differential price reactions among entities. To illustrate this point, the IASB has recently issued new requirements on measuring expected credit losses. When the new Standard comes into effect, it could reveal losses previously not anticipated by investors. Conversely, it could give investors more confidence in the reporting numbers of a particular entity, reducing information uncertainty to the benefit of that entity.

57. The debate about which effects, or 'consequences', of new financial reporting proposals should be considered by a financial reporting standard-setting body is by no means a new issue. The standard-setting community has discussed this issue for decades.[12] Often the debate centres around the appropriateness of using a full economic assessment methodology when reviewing new financial reporting standards. EFRAG and the UK Financial Reporting Council noted that:

> The issue of whether accounting standard setters should take account of the effects, or consequences, of the standards they develop has been a subject of debate for decades, although without satisfactory resolution. The issue has become more prominent in recent years, and the term 'effects analysis' is gaining currency in standard setting.[13]

11 Equipment Leasing and Finance Foundation, *Economic Impacts of the Proposed Changes to the Lease Accounting Standards*, December 2011.

12 See, for example, the bibliography in Schipper (2010) for a list of papers and studies on this issue.

13 EFRAG—UK FRC, Position Paper: *Considering the Effects of Accounting Standards*, June 2012.

58. The Handbook requires the IASB to explain how the improvements to financial reporting will result in better economic decision-making. The IASB's primary concern is to improve general purpose reporting of an entity's activities in a cost-beneficial way, rather than to assess any wider potential consequences of changes to reporting requirements. As part of the leasing project mentioned in paragraph 55, the IASB will be assessing whether the proposed financial reporting requirements will provide better information about leases by making 'hidden debt clearly visible'.[14] The IASB is not required by its due process to factor into its assessment the possibility that the leasing industry might employ fewer people because of these changes. The Consultative Group agrees that understanding these consequences is important but the IASB's responsibility is to develop improvements to financial reporting that lead to better economic decision-making.

Recommendations

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The focus of the IASB's assessment should be on how a proposed financial reporting change is likely to affect that objective. The IASB is not required to assess possible broader economic consequences because these are beyond its objective.

Changes to IFRS are expected to lead to better decisions by investors relying on these reports. Changes to reporting requirements can also cause preparers to bear costs in complying with IFRS and users of the financial reports to bear costs to absorb and process the new information.

The IASB should assess and explain how general purpose financial reports are likely to change because of the new requirements, and why those changes will improve the quality of general purpose financial reports. The IASB should also explain why it considers those changes to be justifiable, by demonstrating how it assessed the likely effects on the direct costs to preparers of meeting the new requirements and the related costs to users.

Other users of general purpose financial reports

59. The IASB does not operate in isolation. The *Conceptual Framework* acknowledges that regulators and members of the public, other than investors and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.[15]

Financial stability

60. Financial stability is widely acknowledged as being important to a well functioning global economy. The FSB website states:

> The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability.

61. As a member of the FSB the IASB supports the mandate of the FSB.

14 Hans Hoogervorst, *Europe and the path towards global accounting standards*, Ernst & Young IFRS Congress, Berlin, September 2013.
15 *Conceptual Framework*, paragraph OB10.

62. The IASB focuses on ensuring that investors, lenders and other creditors have high quality, transparent and comparable information (general purpose financial reports) about individual entities. The FSB focuses on the financial stability of financial markets as a whole. These objectives are complementary. The Consultative Group considers that high quality general purpose financial reports can enhance financial stability by transparently providing relevant information about the risks and opportunities available to investors, thereby reducing information asymmetry.

Prudential supervision

63. The FSB has a responsibility to promote stability within the financial system, working with national prudential supervisors. Prudential supervisors often use information reported in general purpose financial reports as one of the sources of input to the assessment of financial stability. There are examples of explicit links between information in the IFRS-compliant general purpose financial statements and prudential ratios and limits. This means that changes to a Standard can affect the numbers used in regulatory assessments. For example, decisions such as whether an asset should be classified as intangible or included in property, plant and equipment, can have consequences for prudential regulators, because they often treat these classes differently. The IASB was aware of this differentiation when it was developing proposals for leases, in terms of how a leased asset should be classified. Prudential regulators may need to consider changing how they adjust IFRS information that they use to discharge their responsibilities.

64. It is important that prudential regulators are kept informed and given sufficient time to consider how changes in financial reporting will affect their information sets. This dialogue also provides these regulators with the opportunity to discuss any possible unintended consequences that might arise from the changes in financial reports. Discussions with regulators should be undertaken as early in a project as possible, to allow regulators sufficient time to assess and address how the changed financial information is incorporated into their monitoring systems.

65. The Handbook states:

> 3.57 The IASB is aware that prudential supervisors rely on financial reports for some of their functions. To assist prudential supervisors, the IASB keeps an enhanced dialogue with such authorities, particularly through the Financial Stability Board and the Bank of International Settlements.

66. The IASB achieves this in a variety of ways. For example, the Chairman of the IASB is a member of the FSB and IASB members and staff have regular meetings with the Basel Committee, the Accounting Task Force of the Basel Committee and the International Association of Insurance Supervisors, as well as meeting regularly in a forum with the Basel Committee and the International Institute of Finance. In addition, many of these bodies are part of the IASB's Consultative Groups as members or observers. The IASB is required to report each year to the Due Process Oversight Committee (DPOC) on the nature and extent of its dialogue with securities and prudential regulators.

67. The IASB relies on those charged with enhancing financial stability to alert the IASB if a change in financial reporting could have implications for financial stability. The development of a new Standard generally takes five years or more and typically involves the development of a Discussion Paper and an Exposure Draft. These public consultations, along with the regular dialogue with prudential regulators, provide sufficient opportunities for the interested parties to inform the IASB about potential difficulties that a new Standard may pose with respect to financial stability.

68. Narrow-scope amendments to Standards are sometimes completed in less than 18 months, or a shorter period if the matter is urgent. Even this shorter period should provide interested parties with sufficient time to engage with the IASB. Most narrow-scope amendments are focused on a specific aspect of a Standard and it should therefore be easier to assess the consequences.

69. The IASB's responsibilities are to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. If concerns are brought to the attention of the IASB that a proposed change to general purpose financial reporting requirements could affect financial stability, it would be helpful if the IASB included a section in its Basis for Conclusions and Summary Effects Analysis acknowledging its awareness of those concerns, and its response to them. In such circumstances, the parties expressing the concerns about financial stability are likely to be particularly interested in assessing why the IASB considers the proposed financial reporting requirements are relevant and faithfully representative for investors.

70. The IASB is not expected to compromise its objectives. However, communicating its awareness of any concerns others have expressed about financial stability and why the requirements will improve the general purpose financial reports is important.

Recommendations

The mandate of the FSB is to promote the stability of financial markets as a whole. The IASB focuses on ensuring that investors have high quality, transparent and comparable information general purpose financial reports) about individual entities.

To help the FSB achieve its objectives, the IASB should, without compromising its own objectives, continue to engage with the FSB to ensure that the FSB is aware of proposed changes to financial reporting and has sufficient time to assess and address how changed financial reporting information should be incorporated into their monitoring systems.

Explicit and implicit references to IFRS in contracts and regulation

71. Although the objective for financial reporting is to provide financial information relevant to investors, lenders and other creditors, the IASB understands that general purpose financial reports are used for other purposes.

72. IFRS-determined numbers are used in contracts or regulation. A commonly cited reason is that using general purpose financial reporting information is more cost-efficient than writing separate reporting requirements. It also means that entities do not need to keep multiple parallel sets of accounting records, which reduces their costs.

Taxation

73. In some jurisdictions tax is calculated on the profit measured for financial reporting purposes, with or without adjustments. Other jurisdictions have separate taxation rules that specify how revenues and expenses are measured. For jurisdictions using IFRS as the basis for income tax, a change in a Standard can change the tax base.

74. For example, in Italy, taxation is assessed on the separate financial statements that must be prepared in accordance with IFRS. In New Zealand, the deductibility for taxation purposes of research expenditure is determined by how research and development expenditure is measured for financial reporting purposes. In the United States, companies may use LIFO for measuring inventory for tax purposes only if that method is also used for measuring inventory for financial reporting purposes (which IFRS does not allow). These are but a few examples of how a financial reporting change could have economic consequences in other areas of regulation, in this case the tax base.

75. The economic consequences of these links can be significant. In the US LIFO example, if the US standard-setter, the Financial Accounting Standards Board (FASB), were no longer to permit use of the LIFO method, companies using LIFO would have to pay income taxes sooner. This is because the LIFO method tends to generate a higher cost of sales expense and hence reduces the taxes currently payable. The aggregate amount affected has been reported as being around USD80 billion.[16] This consequence assumes that the US government would not change the tax law. Like the IASB, the FASB does not base its decisions on tax consequences.

76. The responsibility of the IASB is to develop financial reporting requirements that result in high quality general purpose reports. Taxation consequences are not a factor that the IASB should consider when it makes its assessment of the potential reporting requirements. To do so could reduce the ability of the IASB to meet its objective. (See also the discussion from paragraph 80 on the importance of ensuring that affected entities are aware of possible consequences of IFRS and the discussion from paragraph 115 on global assessment.)

Bank contracts

77. General purpose reports are often referred to in contracts between banks and their business customers. Such contracts could specify maximum debt levels or financial ratios that refer to numbers prepared in accordance with IFRS. Changing financial reporting requirements can affect those ratios, potentially causing an entity to breach the requirements merely as a consequence of a change in a Standard.

Dividends, statistical reporting and regulated activities

78. Some jurisdictions have laws that limit the amount an entity can pay out in dividends. Those limits can be linked to accounting profit.

79. Some governments also use the IFRS numbers for statistical and economic planning purposes. Others have constraints on returns on assets in regulated industries, which are determined using amounts reported in general purpose financial reports.

Responsibilities of the IASB

80. The objective of the IASB is to improve financial reporting for the benefit of those providing resources to an entity. A decision by a jurisdiction or regulatory authority to use general purpose financial reporting for its own objectives, such as taxation, should not stop the IASB from making improvements to financial reporting. It is not the responsibility of the IASB to tailor IFRS to meet the objectives of these other bodies.

16 US Securities and Exchange Commission, *Final Staff Report on International Financial Reporting Standards (IFRS)*, July 2012.

81. Having said that, the IASB cannot ignore the fact that other bodies use general purpose, IFRS financial information. The IASB develops its Standards in an open manner, which includes public consultation on any proposals. Bodies that use IFRS numbers in contracts or regulation therefore have the opportunity to observe changes to financial reporting that could have implications for their own activities. The IASB should continue to assess whether its consultation on, and communication about, its activities provide other bodies with sufficient information and time to understand a proposed change, assess its impact, and take action necessary in the light of their own objectives.

82. It is also relevant that the IASB does not develop its Standards alone. The IASB works closely with other accounting standard-setters directly and through regional groups and similar bodies such as ASAF, IFASS, GLASS, AOSSG, EFRAG and the IASB's Emerging Economies Group.[17,18] This dialogue facilitates making local jurisdictions aware of proposed accounting changes and soliciting their views. The IASB has a *Charter* that describes its relationship with other accounting standard-setters and endorsement bodies and makes clear that the IASB relies on these standard-setters to make others in their jurisdiction aware of proposed changes. This expectation is reinforced at its regular meetings with those parties.[19]

83. These other accounting standard-setters are better placed than the IASB to liaise with their local prudential regulators and can usefully inform taxation authorities and other relevant bodies of potential changes to IFRS requirements.

84. Other accounting standard-setters are likely to have more knowledge of the local implications of changes in financial reporting standards. For example, when IFRS was first introduced into New Zealand, the local standard-setter undertook specific outreach to banks in relation to debt covenants and the Inland Revenue Department to help it understand the likely change in the composition of deferred tax and links between general purpose reports and the deductibility of research and development and lease expenditure.

Recommendations

The objective of general purpose financial reports prepared using IFRS is to provide financial information relevant to those making decisions about providing resources to the entity.

The IASB recognises that other parties use general purpose financial statements for their own objectives—including determining taxable income, determining distributable reserves, statistical purposes and regulation.

It is not the responsibility of the IASB to tailor financial reporting to meet the needs of these other parties. The IASB recognises, however, that it has an obligation to allow these other parties to observe changes to financial reporting that could have implications for their activities.

It is important that the IASB maintains strong and open communication links with other accounting standard-setters for this purpose.

17 These abbreviations stand for, respectively, the Accounting Standards Advisory Forum, the International Forum of Accounting Standard-Setters, the Group of Latin American Standard-Setters, the Asian-Oceanian Standard-Setters Group and the European Financial Reporting Advisory Group.

18 Although the term 'other accounting standard-setters' is used in this section, not all jurisdictions have a standard-setting body. In some cases a government agency or a professional body is charged with managing an endorsement process or with monitoring IFRS developments.

19 The IASB and other accounting standard-setters, Charter: *Working together to develop and maintain global financial reporting*, April 2014.

The needs of other accounting standard-setters

85. Some jurisdictions that incorporate IFRS within their legal framework require, or elect to prepare, some form of regulatory impact assessment before a new Standard, or an amendment to an existing Standard, is brought into law. The requirements vary between jurisdictions and, in some cases, have broader policy factors in mind than the effect on preparers and users. In other cases, the factors to be considered are narrow and specific. For example, a standard-setter might be required to assess specific factors related to administrative burdens within its jurisdiction, such as how many additional hours of work would be created by a new requirement.

86. Although the IASB should be concerned with assessing the costs of new requirements, local regulations can result in costs that are specific to a jurisdiction. It is difficult for the IASB to identify and consider all of these jurisdiction-specific costs when it sets global Standards. In addition, some issues may be beyond the competence of the IASB because of their specific nature.

87. It is not feasible for the IASB to prepare an assessment that meets the needs of every jurisdiction. What it can do, however, is provide jurisdictions with input to their processes.

88. The IASB is in a good position to collect information about costs generally. Although some duplication of effort seems difficult to avoid, the IASB can limit it where possible by liaising with standard-setters when it plans its fieldwork and outreach. Working co-operatively with other standards-setters creates opportunities for the IASB and local standard-setter to leverage their work. Local standard-setters could collect additional local information as part of the IASB process.

89. Although it is not the responsibility of the IASB to include in its assessment of effects matters that are specific to a jurisdiction, the IASB should work co-operatively with local standard-setters so that it can plan its fieldwork and outreach in ways that help those local jurisdictions to meet their needs.

90. Some jurisdictions are replicating the work of the IASB, because they are unable to use information prepared by the IASB unless they have access to the source data, or because the timing of that work does not align with their own due process requirements. In other cases, the work of the IASB can be used provided it typifies, or is representative of, the environment and circumstances of the local jurisdiction.

91. The Consultative Group thinks that, rather than jurisdictions having to duplicate work undertaken by the IASB, fieldwork undertaken by other accounting standard-setters could become a primary source of evidence for the IASB. This could reduce the amount of work the IASB needs to perform itself. The IASB's role would be to gather and consider the fieldwork from its network of standard-setters (see also paragraphs 119–121).

Recommendations

Other accounting standard-setters may have responsibilities within their local jurisdiction regarding assessment of effects of a change in accounting standards. It is not the responsibility of the IASB to meet those requirements.

However, the IASB should work co-operatively with local standard-setters so, where possible, it can plan its fieldwork and outreach in ways that are mutually beneficial for the IASB and those local jurisdictions.

Developing financial reporting requirements

The consultative process

92. The role of the staff of the IASB is to provide analysis and evidence to IASB members so that they can make informed decisions about possible changes to financial reporting requirements. The analysis and evidence is conveyed to the IASB members in Staff Papers, which are discussed in public meetings and are posted on the IFRS Foundation website.

93. Although the papers are publicly available, not all of the inputs to the papers are accessible to outside parties.

Public consultation and comment letters

94. The Handbook states:

> 3.64 Comment letters play a pivotal role in the deliberations process of both the IASB and its Interpretations Committee, because they provide considered and public responses to a formal consultation.

95. All proposed changes are exposed for public comment and all comment letters received are posted on the IFRS Foundation website. The IASB staff will often use the comment letters to help them plan fieldwork.

Fieldwork

96. The 2013 revision of the Handbook defines fieldwork as:

> Work conducted with interested parties to help the IASB assess the likely effects of a proposed Standard. Fieldwork might include experimentally applying new proposals to individual transactions or contracts as if the proposed Standard was already in effect, asking for feedback on the proposed wording of a particular proposal or assessing the extent of system changes that would be required if a proposed Standard was implemented. Fieldwork also includes gathering examples from practice to help the IASB gain a better understanding of industry practices and how proposed Standards could affect them.

97. The Handbook also states:

> *Fieldwork*
>
> 3.67 The IASB and the technical staff sometimes use fieldwork to gain a better understanding of how a proposal is likely to affect those who use and apply IFRS.
>
> 3.68 Fieldwork can be undertaken in different ways, including one-to-one visits or interviews with preparers, auditors, regulators or investors who are likely to be affected by the proposals. It can also include workshops where several such parties are brought together or experiments to assess how the proposals might be interpreted or applied.
>
> 3.69 Fieldwork may include:
>
> (a) having participants assess how the proposals would apply to actual transactions or contracts;
>
> (b) having preparers or users complete case studies;
>
> (c) undertaking experiments to assess how users process information; or
>
> (d) assessing how systems are likely to be affected.

> Fieldwork may also include gathering examples from practice to help the IASB gain a better understanding of industry practices and how proposed Standards could affect them. It is likely that some fieldwork will be undertaken on all standards-level projects to develop or amend Standards, other than minor or narrow-scope amendments. The IASB and the technical staff will need to assess which, if any, activities are appropriate and proportionate for a particular project, taking into consideration the costs of the activity and what the IASB is likely to learn from the fieldwork.
>
> 3.70 Undertaking fieldwork is not mandatory, but if the IASB decides not to do so, it must explain why to the DPOC and on the project page on the IFRS Foundation website.
>
> 3.71 Feedback from any fieldwork, public hearings or other outreach is summarised in a technical Staff Paper and assessed by the IASB along with the comment letters.

98. The definition and explanation mean that the IASB has a broad view of what constitutes fieldwork, describing it as the process of gathering evidence and opinions from external sources. The IASB may gather and analyse information systematically, such as by analysing large data sets, or less formally, such as from meetings and discussions with consultative groups.

Investors

99. The Handbook states:

> 3.46 The IASB is responsible for developing financial reporting standards that serve investors and other market participants in making informed resource allocation and other economic decisions.
>
> 3.47 Investors, and investment intermediaries such as analysts, tend to be under-represented as submitters of comment letters and the IASB must therefore take additional steps to consult investors on proposals for new Standards or major amendments to Standards. These additional steps could include surveys, private meetings, webcasts and meetings with representative groups, such as the Capital Markets Advisory Committee. Feedback from this focused consultation with investors is summarised in a technical Staff Paper and is considered and assessed along with comment letters. The reporting of this feedback will be as transparent as possible while respecting requests for confidentiality.

100. These paragraphs serve to emphasise that the need to supplement the comment letter process by other ways to solicit input is likely to be greater for investors than for most other parties. We understand that the IASB's experience is that unlike many other parties, investors are also more likely to be reluctant to be publicly identified if they are asked for input.

Fieldwork analysis and results

101. As with any analysis or research, it is important that the research design is sound, including the selection of participants in fieldwork.

102. Irrespective of the assurances the IASB can provide about how it conducted its analysis and research, many outside parties want to make their own assessments about the suitability of the work undertaken. Although the IASB operates in a very transparent manner—all Staff Papers and comment letters are publicly available—not all aspects of its fieldwork are freely available.

103. It is important that the IASB reports the nature of fieldwork it has undertaken as clearly as possible, including who has participated in the fieldwork, and the evidence it has collected. Full transparency allows outside parties to assess the suitability of the fieldwork objectives, instruments and procedures.[20]

20 In recent years academics submitting papers to peer-reviewed research journals are increasingly being required to make available the data sets or research instruments they used in their study.

104. To be able to make general inferences from the fieldwork results, it is important that fieldwork participants are representative of the entities affected by a change. All fieldwork is likely to suffer from some form of selection bias. Identifying the participants allows interested parties to make their own assessment of how representative the fieldwork participants are likely to be of the broader population of those producing or using IFRS financial statements.

105. It is not always possible for the IASB to disclose the identities of individual participants, for reasons of market sensitivity or because it is a condition imposed by the participant. However, the fundamental operating principle should be a goal of full disclosure of all aspects of the fieldwork. When it is not possible to identify the participants, the IASB should provide as much information as it is able to do for outside parties to be able to understand the profile of fieldwork participants.

The nature of fieldwork

106. In planning its fieldwork and analysis the IASB needs to be mindful of the stage of the project and the nature of the changes being proposed.

107. Not all changes to financial reporting require extensive fieldwork or analysis. The IASB has an annual improvements process for narrow-scope and uncontroversial changes to Standards. A minimal amount of fieldwork, or indeed none at all, could be appropriate for this type of amendment. In contrast, pervasive and significant changes warrant a more comprehensive assessment programme. Hence, the IASB should undertake analysis that is proportionate to the changes in financial reporting being proposed.

Research stage

108. The nature of evidence that should help the IASB in the early stages of a project could include evidence of actual practice, to establish whether there is diversity in practice and to identify the economic significance of that financial reporting issue. It could also include assessments of how investors are using information, such as identifying whether investors feel compelled to collect additional information to supplement what is contained in general purpose financial reports, or adjust the data in some way. Similarly, assessments of how preparers gather and process information could help identify cases in which the current requirements appear to be burdensome. Analysis of independently prepared empirical research might also provide evidence of potential weaknesses in financial reporting.

109. The information the IASB gathers should help it assess whether it should consider proposing changes to financial reporting requirements and to assess the likelihood of developing solutions with an appropriate balance between costs and benefits. It is important that the IASB considers the consequences of doing nothing. A conclusion by the IASB that it should stop work on a project and not propose changes to financial reporting requirements is a valid outcome at this stage.

Exposure Draft

110. At the Exposure Draft stage the IASB is setting out a specific proposal for a new or revised Standard. Accordingly, the fieldwork and analysis should be focused on the implications of implementing that proposal, and of any alternatives being considered.

111. The analysis would normally include an assessment of how financial reports are likely to change if the proposed new requirements are implemented. Fieldwork can help the IASB substantiate its analysis.

112. At this stage the IASB usually indicates what sort of transition provisions would be appropriate and what transition period will be needed. Fieldwork, such as meetings with preparers or software vendors, establishing a specialist preparer group or a Request for Information, could help the IASB make these assessments. Fieldwork can also help the IASB understand what changes preparers are likely to need to make to be able to comply with the proposed requirements. Similarly, the IASB might undertake work that demonstrates why investors and other users should find the information required by the proposed Standard helpful.

113. At this stage of the project the level of confidence in the predicted effects need not be as high as for a final Standard. Importantly, in the Exposure Draft stage, the IASB will be seeking feedback through the comment letter process on its assessment of the likely effects of proposed changes to financial reporting. Information in the comment letters received will provide the IASB with input to help it validate its initial assessments of the likely effects.

Finalisation—the Standard

114. At the finalisation of a Standard the IASB is explaining the basis for its decisions and what it expects to be the effects of the changes to financial reporting requirements. This includes explaining the nature of the expected benefits of the change and how those benefits justify the expected costs of change. This final stage is the culmination of all of the work that has been undertaken over the full project cycle. As a Standard is finalised the IASB needs to be confident that its analysis supports the change that it has decided to introduce.

Recommendations

The IASB should plan its fieldwork so that it is proportionate to the changes in financial reporting being proposed. Pervasive and significant changes generally warrant a more comprehensive assessment programme than is needed for narrow-scope changes.

The type, and depth, of fieldwork undertaken should also reflect the stage of development of the project:

(a) at the research stage, the principal focus of the IASB should be on understanding the nature of the problem being addressed—ie defining the problem—including collecting evidence to help the IASB assess the extent and economic significance of the problem. The analysis should focus on the perceived deficiency being addressed and possible solutions.

(b) at the Exposure Draft stage, the IASB is setting out a specific proposal for a new or revised Standard. Accordingly, the fieldwork and analysis should be focused on the implications of implementing that proposal, and assessing any alternatives that are being considered.

(c) at the finalisation of a Standard, the IASB is explaining the basis for its decisions and what it expects to be the effects of the changes to financial reporting requirements. Accordingly, the fieldwork and analysis should explain how the IASB has made its final decisions.

Global assessment

115. Local regulations and customs can affect how financial reporting standards are applied. For example, some jurisdictions do not permit companies to own land. In other jurisdictions, very long-term leases (approaching 1,000 years) are used to manage real estate transfers. The IASB needs to be aware of these issues when it develops Standards. Without this understanding of local regulations and circumstances, it is likely that there will be unanticipated consequences when IFRS is applied.

116. The IASB has a responsibility to give full and fair consideration to the perspectives of those affected by IFRS globally. This is particularly important in ensuring that the Standards are able to be implemented across a range of jurisdictions with a variety of different regulatory frameworks.

117. Having said that, the IASB must make its assessment from a global perspective and not make its decisions because of how the new requirements could affect a particular jurisdiction. There might be circumstances in which the net benefits of a new requirement are negligible (or event create a net burden) for entities within in a particular jurisdiction. The IASB's assessment needs to be whether new financial reporting requirements are justifiable on a global basis.

118. A jurisdiction that rejects or modifies a Standard might create a greater net burden for its entities if the departure from IFRS affects the ability of an entity to comply with listing requirements in another jurisdiction. It also adds costs to users who would need to consider adjusting general purpose financial information from that jurisdiction to make it more comparable with general purpose financial information prepared in accordance with IFRS.

Recommendations

The IASB has a responsibility to give full and fair consideration to the perspectives of those affected by IFRS globally.

The IASB should aim to undertake consultation that is geographically broad-based so that its Standards are written with principles that can be applied globally. Other accounting standard-setters can help by providing the IASB with analysis and information about effects in their jurisdiction generally as well as about factors that might be unique to their jurisdiction.

However, the IASB must make its assessment from a global perspective and not make its decisions because of how the new requirements could affect a particular jurisdiction. There might be circumstances in which the net benefits of a new requirement are negligible (or event create a net burden) for entities within in a particular jurisdiction. The IASB's assessment needs to be whether new financial reporting requirements are justifiable on a global basis.

Co-operation with other accounting standard-setters

119. The IASB already works closely with other accounting standard-setters on the development of IFRS. The Consultative Group recommends that the IASB should investigate the extent to which these other standard-setters could undertake more fieldwork within their jurisdictions and share the results with the IASB. These standard-setters could become the primary field testers and the main role of the IASB would be to receive and assess their fieldwork results.

120. The Consultative Group thinks that such an approach has the potential to broaden the number of fieldwork participants significantly, improving the geographical spread of the analysis and assessing a broader range of local conditions. Involving local standard-setters in identifying fieldwork participants and administering the work could also increase the confidence of national jurisdictions in the fieldwork process.

121. This approach is consistent with the IASB's recent moves to more evidence-supported standard-setting. Other accounting standard-setters are a potentially rich source of information. Fieldwork undertaken by them could become the primary source of fieldwork evidence for the IASB.

Recommendations

The IASB should consider ways to increase the involvement of other accounting standard-setters to in undertaking fieldwork locally and sharing the results with the IASB.

Reporting by the IASB

Availability of fieldwork data

122. In line with the general principles of reporting as openly as possible while respecting requests for confidentiality, the IASB should report the nature of fieldwork and outreach it has undertaken, including who has participated in the fieldwork, and the evidence it has collected, as clearly and openly as possible.

123. The research instruments and documentation used in fieldwork, such as the survey instrument or the full case study and background information given to participants, should be publicly available. The Consultative Group was told that the IASB has not routinely made this information available. The Consultative Group recommends that the IASB should take steps to ensure that these instruments are easily accessible on a project website.

124. When it is not possible for the IASB to disclose the identities of individual participants in fieldwork or the detailed data the IASB has received, the IASB should provide as much information as it is able to do for outside parties to enable them to understand the profile of fieldwork participants and the general results of the fieldwork.

125. To illustrate, the IASB might undertake a survey of investors and analysts in relation to a particular proposal. The survey should be made available on the project website. If the IASB decides that it will elicit better responses by granting anonymity to participants, it should report the results in a way that allows readers to assess how representative the survey is of the broader IFRS population. This might be, for example, by identifying the types of participant—the industries, regions and position or responsibilities of the particular respondent within their entity—and relating these to the fieldwork results.

Recommendations

The IASB should make available information about the nature of fieldwork and outreach it has undertaken. The IASB should take steps to ensure that fieldwork tools such as surveys and case studies are easily accessible on the project website. Such information should also include identifying as clearly and openly as possible, while respecting requests for confidentiality, who has participated in the fieldwork and the evidence that has been collected. This information should be made available throughout the development of the project.

When it is not possible for the IASB to disclose the identities of individual participants in fieldwork, the IASB should provide as much information as it is able to for outside parties to be able to understand the profile of fieldwork participants.

Assessing and reporting the likely effects

126. It is important that the work the IASB undertakes in assessing the likely effects of potential and final Standards is accessible to the parties interested in the analysis.

127. The IASB endeavours to ensure that all papers and analysis on technical matters that are discussed by the IASB in its meetings are publicly available. All of the IASB's analysis of the likely effects of a proposed new financial reporting requirement is already in the public domain. However, for an outside party to have a complete understanding of the factors that the IASB considered, and the choices it made, an observer may have to read potentially thousands of pages of material supporting individual meetings and discussions.

128. The way the IASB communicates its consideration of the likely effects of possible or proposed changes to financial reporting requirements should reflect the stage of the project.

129. A **Discussion Paper** does not have a Basis for Conclusions. Any assessment of the likely effects is likely to be undertaken at a relatively high level and be incorporated in the main text.

130. In an **Exposure Draft** the appropriate place to explain the likely effects is in the accompanying Basis for Conclusions. The Basis for Conclusions may include appendices explaining specific tasks or analysis undertaken, if this is helpful to an understanding of the likely effects. It will be a matter of judgement as to how much detail should be included in the Basis for Conclusions. It might be helpful to include some examples, cases or other supporting data to illustrate the types of fieldwork undertaken. It might be better to place the more detailed analysis or data, such as the cases or data provided to participants in a field test, tools used, and any detailed reports or analysis that underpinned the effects analysis, on the IFRS Foundation website instead. This supporting material should be readily accessible to interested parties, such as in a special section of a project page on its website that could be referred to in the Basis for Conclusions. The Basis for Conclusions for Exposure Draft ED/2013/6 *Leases* is an example in which the IASB included a supplement with worked examples.

131. For a **Standard**, an approach similar to that taken for an Exposure Draft should be followed except that a separate Summary Effects Analysis would normally also be issued to accompany the Standard.

132. Recently, for some Standards, the Basis for Conclusions has reached more than 100 pages. The Basis for Conclusions is structured to align with the structure of the Standard to which it relates. The length and structure of the Basis for Conclusions can make it difficult for a reader to get an understanding of what elements of the Effects Analysis the IASB considered to be most important in a project. A more focused summary report of the likely effects of a Standard would provide the reader with such understanding and therefore is more appropriate.

133. Having a summary report does not mean the Basis for Conclusions would not include any analysis of the likely effects. The Handbook states that 'the IASB's views on the likely effects are approved by the IASB and presented as part of, or with, the Basis for Conclusions that is published with each Exposure Draft and Standard.'[21] It is up to the IASB to decide how much of the Effects Analysis it presents within the Basis for Conclusions and how much is presented in a separate report. Some sections might be in both documents, because they could have different audiences.

134. No matter how the IASB presents its analysis of the likely effects of a new financial reporting requirement, it is important that the Effects Analysis is formally approved by the IASB in the same way as a Standard is. Early Effects Analyses were published weeks or months after the new Standard and Basis for Conclusions were issued and were not balloted with the Standard. The Consultative Group recommends that the IASB include any separate Effects Analysis Report in the package of documents being balloted with a Standard.

135. This separate, final, report should be written using language and a style aimed at non-accountants. This should help ensure that the report is accessible to a wider audience, including regulators. A purpose-designed document that summarises the likely effects and how the IASB made the assessments can be helpful to those with a particular interest in this work.

Recommendations

The format of the analysis of the likely effects of a proposed change in financial reporting should reflect the stage of the proposals.

In the research stage, an analysis of the perceived deficiency being addressed and the possible solutions are an integral part of the discussion or research paper.

At the Exposure Draft stage, the Basis for Conclusions should set out why the IASB is proposing a particular change to financial reporting requirements, including referring to the evidence it has collected or the outreach it has undertaken.

When a new Standard is issued, the IASB should generally prepare a separate Effects Analysis Report. A tightly-focused document that summarises the likely effects and how the IASB made the assessments can help those with a particular interest in this work. Any such report should be included with the package of documents balloted by the IASB.

21 *Due Process Handbook*, paragraph 3.74.

Application guidance for assessing the likely effects of new financial reporting requirements

Evidence, analysis and decision-making—sources, limitations and strengths

136. It is important that the assessments performed by the IASB are appropriate to the particular changes being proposed, that they are supportable, and that they are representative.

137. The IASB is interested in 'how (those) changes improve the comparability of financial information between different reporting periods for an individual entity and between different entities in a particular reporting period' and 'the likely effect on compliance costs for preparers and those using the financial reports, both on initial application and on an ongoing basis', respectively.[22]

138. The IASB needs to be satisfied that its testing is reliable and robust and can be used to reach more general conclusions that would apply to the broader population of entities that will apply the new requirements.

139. The most important factor on which the IASB should focus is the potential benefits of the new financial reporting requirements. It is obviously also important to consider the costs of alternative financial reporting requirements available to the IASB, such as disclosure-only options or alternative recognition or measurement requirements, but the primary purpose of the IASB's activities is to improve the quality of financial reporting, at a justifiable cost.

140. It can be difficult to quantify benefits, which is why standard-setters have tended to focus on qualitative assessments. The Handbook states on this matter:

> 3.76 The analysis is not expected to include a formal quantitative assessment of the overall effect of a Standard. Initial and ongoing costs and benefits are likely to affect different parties in different ways. The level of analysis is tailored to the type of changes proposed, with more analysis undertaken for new Standards and major amendments.

141. That is not to say that such assessments cannot be supported with empirical data, such as data provided by having preparers test new requirements within their organisations. To illustrate, the IASB undertook empirical analysis to compare the likely actual effect on the leverage of an entity of bringing many operating leases onto balance sheets with how investors and analysts currently use a 'rule of thumb' to estimate leverage.[23] Similarly, anecdotal assessments of benefits can be given greater credibility if they are backed up by surveys or consistent messages in comment letters.

142. It is usually easier for an entity to identify and estimate some of the costs of implementing a proposed change in financial reporting requirements than it is for them to assess the direct benefits to them. However, there are risks that calculating a specific 'cost' of implementing a proposal can give an air of accuracy that is not justified. The costs of new requirements to individual entities will depend on many factors, including their size, location and the nature of their operations.

22 These are factors identified in the Handbook.

23 Some analysts estimate the unrecognised liability associated with an operating lease by multiplying the lease expense using a 'rule-of-thumb' multiple of 8.

143. The IASB should ensure that it has credible evidence to support its conclusions. The IASB could focus on assessing which aspects of the proposed or new requirements are likely to drive up or reduce costs. For example, are the new requirements likely to require system changes or be more closely aligned with internal systems? Analysis could also be directional or comparative. For example, the IASB could assess whether proposed changes are likely to reduce or increase compliance costs or comparability (see the IFRS 3 *Business Combinations* Effects Analysis). Similarly, the IASB could assess whether one proposal has higher or lower compliance costs than the alternatives considered.

Proportionality

144. The IASB should put greater effort into considering the effects of proposed new financial reporting requirements that are likely to lead to more significant changes to financial reports and/or are likely to be costly to implement.

145. Amendments such as annual improvements would not justify a formal analysis of their likely effects because they are, by their nature, designed to clarify requirements or improve comparability in a relatively benign way.

Analysis and inferences

146. The IASB needs to be assured that the information and data that it uses to assess the likely effects of a proposed Standard are credible and that the results are interpreted appropriately within the context of the issues being considered by the IASB.

147. The IASB collects a wide range of evidence from many sources. Every Discussion Paper and Exposure Draft has a period of public comment. The IASB receives submissions directly from interested parties in the form of comment letters, which are publicly available on the IFRS Foundation website. All comments received are considered by the IASB. In addition, the IASB undertakes outreach with interested parties, particularly investors.

148. Most information and data has limitations. Comment letters are an important source of evidence for the IASB. It is important to remember, though, that respondents self-select whether to send comments to the IASB. The IASB also, generally, receives significantly more letters from preparers than investors. These limitations make it difficult to infer that the comments are representative of the wider IFRS community. The IASB recognises this and undertakes additional consultations to gather information from under-represented organisations and regions.

149. The IASB also recognises that it needs to be careful in how it interprets information provided in comment letters. A recently published study of the transition to IFRS in Canada indicated that, on average, preparers internally overestimated the costs of moving to IFRS.[24] This example highlights how difficult it can be to estimate costs accurately.

150. Many projects have specially appointed consultative groups of independent experts. These groups meet in public. This is supplemented by other outreach activities, including one-to-one meetings, public round-table meetings, workshops, surveys and fieldwork.

151. The IASB has recently started to make more use of Requests for Information to gather evidence and information to help it develop Standards. The IASB has a growing research initiative that uses academic research and empirical data, using its own staff as well as a growing network of research professionals.

24 FEI, *The cost of IFRS transition in Canada*, July 2013.

Weighing evidence

Data integrity

152. As a global body, the IASB faces particular challenges in demonstrating that it has consulted broadly and that the financial reporting requirements that it is developing are enforceable globally. Part of this challenge is demonstrating that information to support its decision-making comes from the broader global environment, and not merely from isolated sectors or jurisdictions—the assessment should be global and consider the views of the range of entities applying IFRS including those of different size, industry etc.

153. An example of such broad consultation is the fieldwork that the IASB undertook to assess a proposed credit impairment model for financial assets. Of the 15 listed entities that participated in the fieldwork, two were non-bank corporations and the remaining 13 were banks. On the basis of the location of its Head Office, two each were from North America, South America, Africa and Asia-Oceania and seven were from Europe. Four of the banks had global systemic risk.

154. The IASB also established a panel of experts from the banking sector to consult about whether banks would be able to implement the impairment proposals and the extent of system changes that would be necessary. The IASB had to consider whether the information it was receiving could be applied to the wider population of banks or corporates.

155. The IASB considers this fieldwork to be sufficiently broad to be considered global. From the perspective of an individual regulator, however, the sample might include only one bank from their jurisdiction and the endorsement body might need to consider whether it should undertake supplementary fieldwork to broaden the sample. The IASB is an international standard-setter and its responsibility is to ensure that it has undertaken sufficient analysis at a global level. The IASB needs to assess whether the coverage (for example, the selection of participating banks in the credit impairment test) is an appropriate way for the IASB to provide evidence of the likely effects of its proposals.

156. The IASB was not able to identify externally the specific countries in which the participants of the fieldwork were based because some banks had requested complete confidentiality. Their stated reason for doing so was that any reported outcome of the analysis would be too easy to associate with an individual entity. Information about potential increases in impairment losses calculated using the proposed model was, in their view, potentially price-sensitive information that should be released with full disclosure and not as a result of fieldwork testing. The IASB experienced similar challenges in the Financial Statement Presentation project; participants requested complete confidentiality because of concerns about the potential price-sensitivity of restated financial statements that were an essential component of the fieldwork. The need for confidentiality, which can prevent the IASB from making field test results public, may make it impossible for an endorsement body to rely on the work of the IASB. In those cases, endorsement bodies may have no other choice but to undertake their own fieldwork.

Sample size and mix

157. The IASB sometimes has difficulty finding participants for fieldwork. The potential number of participants reduces as the intensity and resource requirements of the task increase. It also biases the candidate pool towards larger entities, because they are more likely to have specialist teams large enough to absorb the extra work. In the credit impairment fieldwork the IASB spent over 600 person-hours preparing fieldwork material, in one-to-one briefing sessions with participants and analysing the results. Participants also tracked the amount of time spent on the analysis. The larger banks variously reported spending between 400 and 600 person-hours and smaller participants reported spending between 200 and 250 person-hours on the fieldwork. The problem of self-selection bias is likely to be a limitation of all fieldwork performed by the IASB.

158. Sample selection can also be affected by the timing of the work. The IASB's credit impairment fieldwork did not include entities from some jurisdictions, because the common reporting dates within those jurisdictions prevented entities from participating effectively.

Global assessments

159. As a global standard-setter the IASB is concerned with the global effects of proposed changes to IFRS. Accordingly, the IASB's assessment needs to consider how the changes will affect preparers and users in different jurisdictions. For example, a requirement to measure a particular class of financial assets at fair value may be more difficult in a jurisdiction that does not have mature and active financial markets.

160. When the IASB eliminated the use of proportionate consolidation for jointly controlled entities it had almost no effect in Australia, New Zealand, South Africa or the United Kingdom. Before these countries adopted IFRS they did not permit the use of proportionate consolidation in such cases and most entities continued to use the equity method even though IFRS gave them the choice of using proportionate consolidation. In contrast, most French and Spanish companies used proportionate consolidation for jointly controlled entities. The IFRS 11 *Joint Arrangements* Effects Analysis documented these jurisdictional-specific differences in how financial reporting would change. In this case, the effects on financial reports were expected to vary between countries, even within Europe.

161. The Consultative Group thinks it is important to highlight these differences in the likely effects. It demonstrates that the IASB understands the different circumstances that different countries face. It also helps a particular jurisdiction understand why entities within that jurisdiction might be affected by a financial reporting requirement more than entities in other jurisdictions.

Working with other accounting standard-setters

162. The IASB and other accounting standard-setters have procedures for considering how much weight to give to information and evidence they collect. The weight given is influenced by many factors, including how directly they were involved in collecting or verifying the information and their confidence in how representative the evidence is likely to be in relation to a particular issue or target group.

163. For example, in July 2013 EFRAG finalised its fieldwork policy. That policy states that:

> … the staff of EFRAG and participating national standard-setters must have access to all detailed evidence gathered during fieldwork on an equal basis from the jurisdiction they are responsible for and develop their Recommendations in full independence. Only evidence accessible to staff can be taken into account in developing these Recommendations.

164. The IASB does not have a policy for conducting fieldwork. The Handbook states that 'The IASB and the technical staff will need to assess which, if any, activities are appropriate and proportionate for a particular project, taking into consideration the costs of the activity and what the IASB is likely to learn from the fieldwork.'[25] The IASB, and other accounting standard-setters, are more likely to be able to give greater weight to evidence if they collect it directly. Having personnel from the IASB and other accounting standard setters/endorsement bodies work together in interactions with local stakeholders provides the participating parties with direct access to stakeholders, reduces the duplication of effort and reduces the likelihood that a stakeholder will be asked for the same or similar information independently by the IASB and a local body.

165. The IASB and other accounting standard-setters understand that stakeholders have the right to choose who they talk to. It is not always possible or appropriate for the IASB and another standard-setter to engage with stakeholders together. Sometimes a stakeholder will request an interaction with the IASB or the other standard-setter alone. Information gathered by one body, whether it is the IASB or another standard-setter, is likely to be given more weight by the other body if the nature of that interaction is transparent.

166. Some view with scepticism some of the evidence collected by the IASB. If the IASB thinks that a particular financial reporting approach is the better model, those critics worry that the IASB will be selective in their analysis of the costs of implementing the model. To reduce this concern the IASB works with other accounting standard-setters and similar bodies when it undertakes fieldwork. For example, the IASB worked with EFRAG and European standard-setters when it undertook fieldwork on the Revenue Recognition and Leases projects. Working with local standard-setters is an effective way of reducing duplication of testing and analysis.

167. Nevertheless, we understand that the IASB has experienced situations in which the entities participating in field tests are unwilling to allow non-IASB personnel to view or access any data generated in the field test, notwithstanding the availability of confidentiality agreements. In such cases, it is possible that some jurisdictions will not accept analysis undertaken by the IASB, because they would not have full access to the evidence and data.

168. As long as jurisdictions have a requirement to undertake analysis directly there is likely to be some duplication of analysis. Concerns about data integrity can be alleviated if the IASB:

    (a) collects a broad range of corroborating evidence from different sources;

    (b) is as transparent as it can be in explaining how it chose participants for fieldwork; and

    (c) shares as much information as can be done without limiting the potential participants—ie avoiding having potential participants withdraw because they have concerns that others will see the data.

169. The IASB does not have a responsibility to select participating companies to meet jurisdiction-specific requirements. Having said that, co-operation between the IASB and endorsement bodies should help reduce the duplication of effort.

170. In many cases other accounting standard-setters are well placed to undertake some of the analysis for the IASB and to identify features that might be unique to a particular jurisdiction. Consequently, where appropriate, the IASB should liaise with other relevant parties that are independent from the IASB, such as other accounting standard-setters, in terms of gathering evidence of the effects of accounting standards.

25 *Due Process Handbook*, paragraph 3.69.

171. Partnering with other relevant parties might provide the IASB with additional resources and expertise and is likely to avoid duplicating work (ie entities do not have to provide the same, or similar, information twice when effects analyses are being performed by different parties). Partnering will ensure that those parties play an active role in the standard-setting process. The Consultative Group has recommended that the IASB should investigate ways to work more closely with other accounting standard-setters to have them administer fieldwork—to broaden the size of the fieldwork samples (see paragraphs 119–121).

General tools

Gathering opinions and information from relevant parties

Comment letters

172. All Discussion Papers and Exposure Drafts are published for public comment. All comment letters are made public and can be viewed on the IFRS Foundation website. They are a prime source of information for the IASB because they capture public, written representations from interested parties. As noted in paragraphs 148 and 149, comment letters have limitations as sources of evidence.

Request for Information

173. A Request for Information (RFI) is a formal consultation step that the IASB undertakes to receive feedback and information on a specific aspect of one of its projects. An RFI normally helps the IASB to prepare an Exposure Draft or finalise a Standard. An RFI is not a mandatory due process step. It is a public consultation. As such the request and all responses received by the IASB are publicly available on the IFRS Foundation website. The comment letters received in response to an RFI have similar limitations as sources of evidence as responses to an Exposure Draft.

Targeted requests

174. The IASB sometimes writes to groups such as other accounting standard-setters to obtain information or views on particular aspects of financial reporting, either from that standard-setter or by having the standard-setter contact local preparers, auditors and users. This step can be particularly important in ensuring that the IASB's consultations are global. The correspondence with these parties is not always made publicly available, usually because this enables the information exchange to be less formal. If the correspondence was made publicly available the respondents would often need to apply a more protracted and formal due process in preparing the response, including publicly exposing their response in some cases. The IASB generally uses the targeted requests as a means of getting background information to help it plan the initial scope of a project or to get a sense of possible diversity in thinking or practice. Because the respondents are selected by the IASB and the correspondence is not publicly available, the IASB needs to be cautious about how much weight it places on the evidence that these requests provide.

Surveys

175. Surveys can be helpful for collecting broad feedback. The IASB has used these in Post-implementation Reviews, but less often in developing Standards. The IASB usually uses surveys when it collects information from users (investors). The IASB also uses survey data collected by others to inform and corroborate its own analysis. The survey instrument, the survey results and a summary of the type and geographic spread of participants are normally publicly available. However, the names of the participants are normally not disclosed because granting anonymity increases the participation rate.

Consultative groups

176. A consultative group is a group that the IASB or the IFRS Interpretations Committee (the 'Interpretations Committee') consults. Such groups provide the IASB with feedback based on research, experience or background; for example, in order to offer different perspectives on a given topic. Consultative groups have their membership reviewed and endorsed by the DPOC. For each new Standard or major amendment, the IASB must consider whether it should establish a consultative group. If the IASB decides not to establish a consultative group it must explain its reasons in a public meeting.

177. The IASB might assemble a consultative group to bring together people from a broad range of backgrounds or with targeted expertise, such as people responsible for valuing financial instruments or managing internal information systems.

178. Consultative groups usually meet in public sessions and the papers they discuss are publicly available.

Meetings

179. The IASB meets interested parties to discuss aspects of proposed changes to financial reporting. The meetings might be initiated by the IASB, perhaps following up on a comment letter, by the other party or by another accounting standard-setter. Such meetings give the parties an opportunity to convey information to the IASB or for the IASB to gather information. The IASB is aware that care needs to be taken in how it uses this information, because it might not be representative of the wider IFRS community and it is also gathered in private.

180. Sometimes meetings are planned with a particular target group in mind, either one-to-one or in small groups, with a structured set of questions. These structured interviews allow the IASB to gather information in a systematic way but in more depth than is normally achievable from a survey. Meetings of this nature are private. They help the staff of the IASB and individual IASB members by providing background information that might not be shared otherwise.

Public hearings

181. Public hearings are meetings with interested organisations to listen to, and exchange views on, specific topics. Public hearings include round-table meetings and discussion forums.

Fieldwork

Current practice reviews

182. A review of current financial reporting practice can identify diversity in practice. Such reviews can also help the IASB assess the economic significance of particular types of transaction or activity and how pervasive they are. The main sources of such reviews are entity's financial reports, analyst reports and databases compiled by data aggregators or securities regulators.

New requirements testing

183. Participants are asked to apply the proposed requirements to their existing data set as if the proposed new requirements were in effect. This type of analysis can be helpful in assessing how financial statements are likely to be affected by the proposals—ie the differences between how the transactions or events would be reported in comparison to the current requirements.

184. New requirements testing relies on input from preparers. Its strength comes from the fact that the new requirements can be 'tested' using source data and can focus on a wide range of potential implications of a new Standard. Entities could be asked to assess the likely transition effort (such as some were for IFRS 11 and IFRS 10 *Consolidated Financial Statements*) or likely changes to provision levels (as some were asked to do when assessing the proposed credit impairment requirements that were incorporated in IFRS 9 *Financial Instruments*).

Simulations—what-if analysis

185. 'What-if' analysis usually involves the IASB undertaking hypothetical what-if analysis on data sets based on observed financial reported data to assess the possible financial reporting effects of a particular proposal or component of a proposal. The difference between new requirements testing and what-if analysis is that for the latter the IASB staff are estimating the effects from reported financial information without any input from the entity.

186. Care needs to be taken in considering the results of a what-if analysis. Any such analysis normally assumes that all of the factors being assessed would remain unchanged when the new requirements take effect—ie the operating variables are held constant. For example, assessing whether an entity will report more financial assets at fair value when applying a new classification and measurement requirement would assume that the entity will not adjust its portfolio of financial assets when the new requirement takes effect. This may not be the case, because entities may change their behaviour following an accounting change. It is a blunter instrument than requirements testing, but it can also draw on much larger data sets.

Drafting assessments

187. Consultations and evidence could include seeking targeted, or public, reviews of a draft of the final proposals to elicit information about the clarity and consistency of the drafting. It might also be helpful to use case studies (for example, specific transaction types) and test the consistency with which preparers apply the requirements to those fact patterns.

Independent research

Professional bodies and other accounting standard-setters

188. Many professional bodies and other accounting standard-setters conduct research and analysis that can be helpful to the IASB.

Academic studies

189. Reviews of academic studies are used across a wide range of IASB activities. Recent examples include, at the formative stage: considering the history of the equity method of accounting; helping identify weaknesses in lease accounting; and assessing the different information content of proportionate consolidation and the equity method in the Joint Arrangements project. The IASB also considers studies throughout a project on individual topics.

Selecting evidence

190. The type of analysis and evidence that is appropriate to an assessment of the likely effects of new financial reporting requirements will depend on the stage in the life cycle of a project.

191. This section sets out the stages, and steps within each stage, in the IASB's process of considering financial reporting matters and, where appropriate, developing a new Standard. For each stage the governance and due process requirements are first set out. References in the flow diagrams to 'DPH' are to the Handbook.

192. The second set of flow diagrams for each stage indicates the types of issues that consideration of the likely effects could cover.

Agenda Consultation

193. Every three years the IASB undertakes a public review of its work programme. The first such review was completed in 2012. The purpose of the review is to help the IASB set its strategic objectives. This process provides an opportunity for the broader IFRS community to help the IASB identify priorities for its work programme.

Governance

Initiation

The IASB is required to initiate a review of its work programme three years after it completed its last review. [DPH 4.3]

Consultation

The IASB develops an RFI in consultation with the IFRS Advisory Council. [DPH 4.3–4.4]

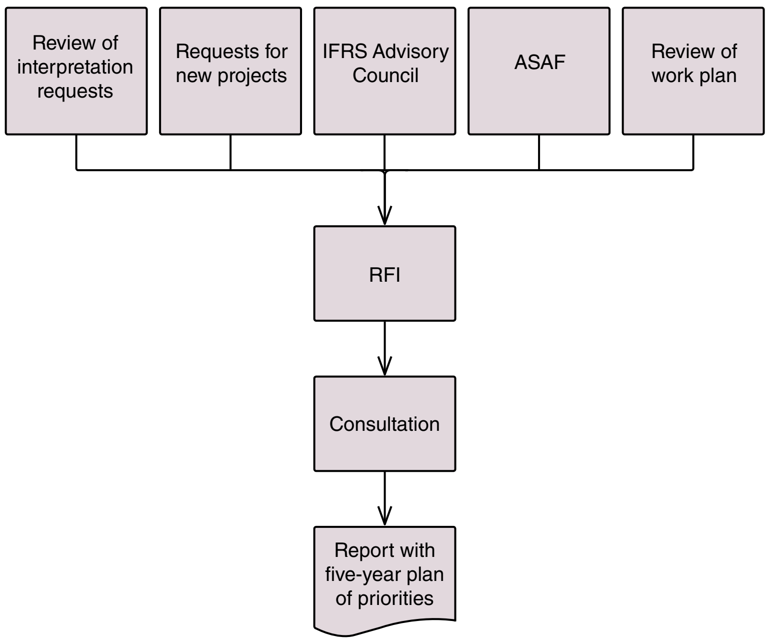
The RFI is published for public consultation, normally four months. [DPH 4.3]

All comment letters received are posted on the IFRS Foundation website and the analysis and discussion of those comment letters are public. [DPH 3.65]

The IFRS Advisory Council reviews and provides input on the draft Report. [DPH 4.4]

Communication

The IASB publishes a Report on its Agenda Consultation, setting out its priorities. [DPH 4.5]



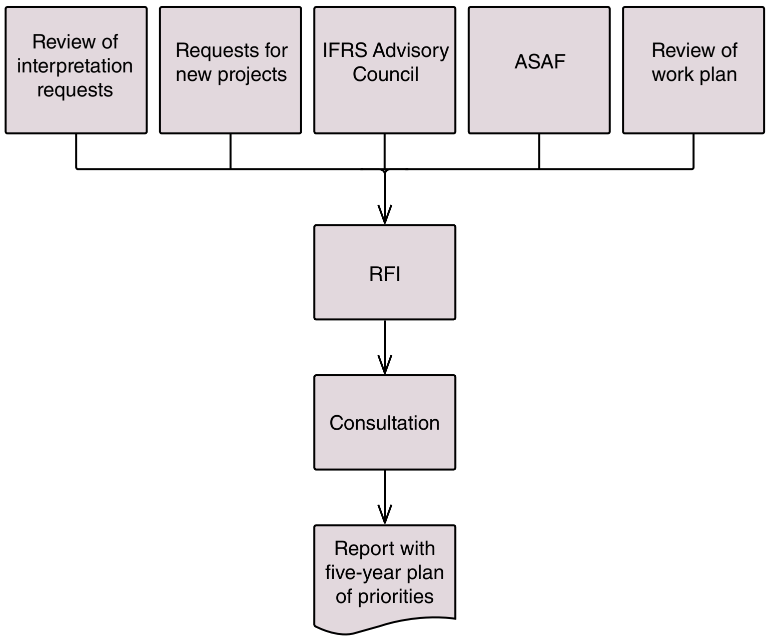
194. Consideration of the likely effects of changing financial reporting requirements is at a much higher level at the Agenda Consultation stage. This is because the Agenda Consultation does not consider specific proposals. The Agenda Consultation is designed to help the IASB identify potential projects. Once research into those projects starts, the IASB will begin to examine the potential effects of related changes to financial reporting.

Consultation and fieldwork

What financial reporting matters should the IASB consider researching or modifying to improve financial reports?

Review interpretation requests, requests for new projects; consult with the IFRS Advisory Council, securities regulators, ASAF, other accounting standard-setters and other interested parties; consult with investors; review progress on current work plan.

Solicit external views through an RFI and public round-table meetings.



Research Programme

195. The main focus of the Research Programme is to identify the nature and extent of the problem to help decide whether the IASB should attempt to develop new financial reporting requirements to address the problem.

Governance

Initiating research

The Research Programme is established by the IASB, primarily as a result of its public Agenda Consultation. Other projects can be added if the IASB identifies an area of potential concern. The IASB keeps the IFRS Advisory Council informed of work undertaken, new initiatives added and milestones reached. [DPH 4.11]

Research process

The IASB is required to decide whether it needs to create a consultative group for the research project. [DPH 3.44(b)]

The IASB considers whether it would be helpful to have a public RFI. [DPH 4.15]

Discussion Papers are released for public comment—for at least four months but often for six months. [DPH 4.18]

All comment letters received are posted on the IFRS Foundation website and the analysis and discussion of those comment letters are public. [DPH 4.19]

The IFRS Advisory Council reviews and provides input on the draft project recommendation. [DPH 5.6]

Project recommendation

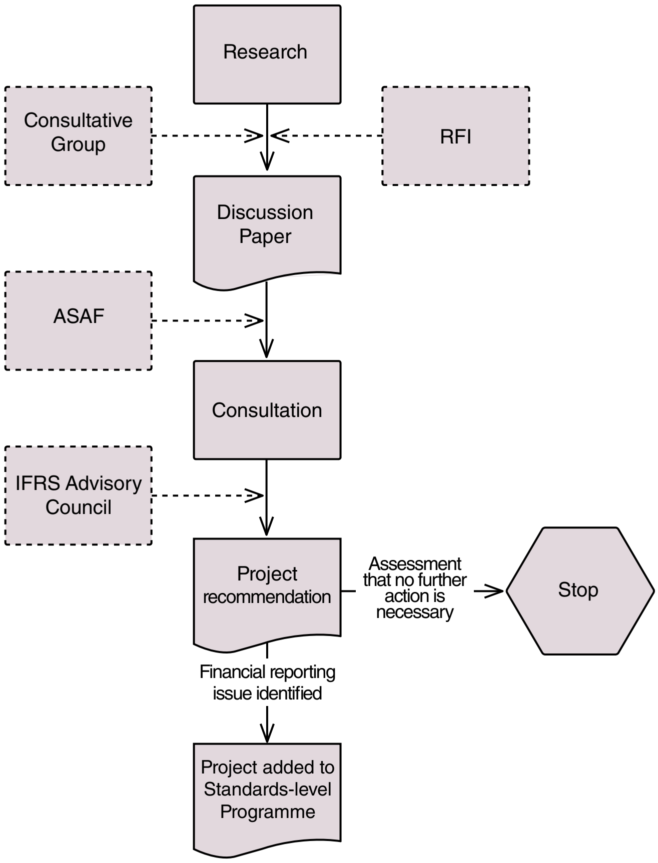
The final project recommendation is discussed by the IASB in a public meeting. [DPH 5.6]

If the IASB is satisfied that it has identified a financial reporting matter for which the IFRS requirements should be changed, it adds a project to its Standards-level Programme. The IASB must consider whether the benefits of the improvements to financial reporting are likely to outweigh the costs. [DPH 5.6–5.7]

Communication

All project information, including work plans, is published on the IFRS Foundation website. [DPH 3.34–3.36]

The IASB updates the IFRS Advisory Council, the DPOC, ASAF and important external bodies on its project plans. [DPH 2.9, 4.11]



Consultation and fieldwork

Current practice

How common is a particular type of transaction or event—is it widespread across a broad range of jurisdictions or entities? Are the transactions economically significant? How are the transactions being reporting currently? Is there evidence of diversity in practice?

Empirical reviews of financial statements; examples from securities regulators and other accounting standard-setters.

Preparers

Is there evidence that a current requirement is burdensome and that there may be more cost effective ways to report similar information?

Direct evidence from preparers: surveys, consultations, focus groups.

Investors

Is there evidence that investors are adjusting the information provided by entities, or are using proxies because of a lack of information? Is there evidence from markets that the information about the transactions interest is weak or that there are informational asymmetries?

Direct evidence from investors: surveys, consultations, focus groups; academic research.

Potential solutions

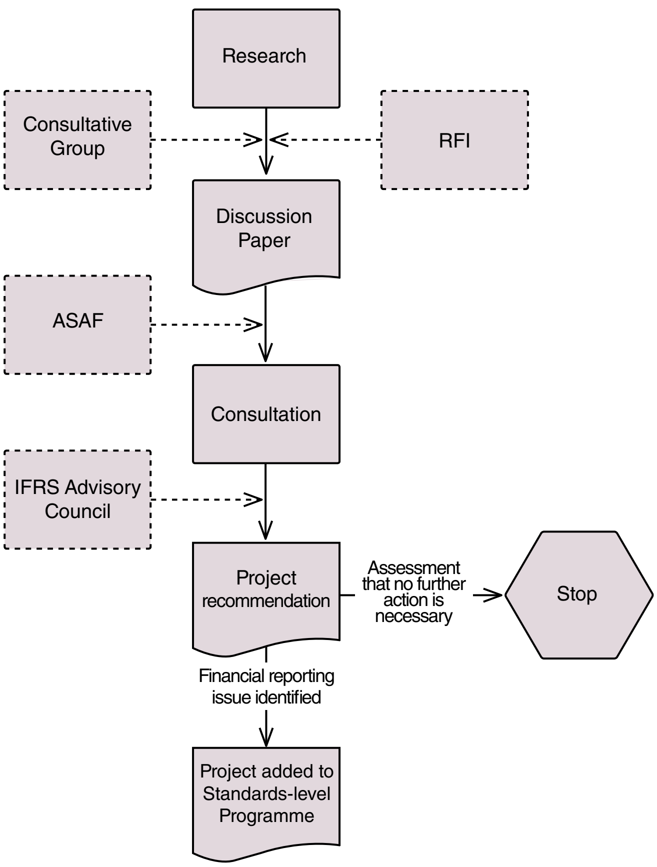
Are there potential improvements that the IASB can make that are cost-effective?

Analysis of comment letters, public hearings and other consultations.

Project recommendation

Is the IASB confident that it can develop cost-beneficial improvements in financial reporting?

Assessment of all of the information collected to date, with advice from the IFRS Advisory Council and ASAF.



196. The IASB collects evidence to help it assess the nature and extent of the financial reporting problem that it is setting out to address. The IASB explains why it is considering proposing changes to financial reporting requirements, supported by evidence of divergence in practice or concerns about the quality of the information being presented and disclosed in general purpose financial reports and an assessment of the likelihood of developing cost-beneficial solutions.

197. It is important that the IASB considers the consequences of doing nothing. A conclusion by the IASB that it should stop work on a project and not propose changes to financial reporting requirements is a valid outcome at this stage.

198. To illustrate, the IASB has a research project to examine *business combinations under common control*, for which there are currently no explicit requirements within IFRS.[26] Some of the options that the IASB are considering include requirements that such transactions must be recognised and measured using carry-over accounting (retaining the current carrying amounts of the combining entities), fresh-start accounting (whereby all of the assets and liabilities of the combining entities are remeasured at fair value) or acquisition accounting (where one of the combining businesses is identified as the acquirer—the acquirer's assets and liabilities are carried over and the acquired entities assets are remeasured at fair value).

199. We understand that the IASB anticipates that its analysis will include evidence of the extent of the different types of transaction—for example, are some types of transaction more prevalent or causing greater concern to investors? The IASB will need to explain why it thinks that each of the alternatives would improve the financial reporting of business combinations under common control. It is equally important to consider the consequences of doing nothing, which would mean allowing entities to select the approach they consider to be the most relevant to particular circumstances.

Examples of relevant fieldwork

Review of existing practice

200. Analysing financial statements or economic data can help the IASB to assess the economic significance of particular types of transaction or activities and how consistently they are being reported in general purpose financial reports. This analysis might be undertaken directly by IASB staff or by assessing research undertaken by others. The IASB could also ask others to help collect information about inconsistent practice through a public RFI or through informal requests to securities regulators, other accounting standard-setters, accounting firms and industry representatives.

201. In developing IFRS 11 a review was carried out of how IAS 31 *Interests in Joint Ventures* was applied in practice to assess whether there was diversity in practice and to help assess geographical or industry differences in accounting policy choices. Before the Leases project was added to the IASB's agenda, an analysis was undertaken of leasing activity—operating and financing—to assess its economic significance.

26 A business combination under common control occurs when one business 'acquires' another and both have the same ultimate parent. A regularly occurring type of such transaction arises when two or more companies in a group are reorganised into a new entity and that new entity is sold.

Investor/analyst needs assessments

202. Evidence that investors are adjusting the information provided by entities, or using proxies because of a lack of information, can help the IASB assess whether investors have a need that is currently not being met by IFRS requirements. This type of information could be gathered through structured interviews, or through surveys, with targeted questions about measurement and disclosure requirements.

203. Before the Leases project was added to the IASB's agenda, analysts were surveyed to assess whether they were adjusting financial statements for off-balance sheet operating lease commitments.

Data and application cost assessments

204. Even though a research project is a formative stage of the standard-setting process, focusing mainly on understanding whether there is a financial reporting deficiency, it can be helpful to assess at this stage the feasibility of possible solutions—if only to eliminate some possibilities. Such assessment may help the IASB to consider whether preparers are likely to have the information necessary to meet possible financial reporting requirements. For example, when the IASB was considering developing an expected loss model for financial assets, it established a panel of experts from the banking sector to consult on whether banks would be able to implement the proposals and what system changes would be necessary.

Simulations (what-if analysis)—IASB staff analysis

205. Even in the formative stages of a project the IASB can undertake hypothetical what-if analysis on sets of observed financial reporting data to assess the possible financial reporting effects of the proposals. If an alternative financial reporting requirement is unlikely to change, in an economically significant way, how transactions or events are reported in financial statements, it raises questions about whether a change could be justified. Conversely, if the effect is likely to be significant, simulations can help the IASB to assess whether, and explain why, potentially new representations are an improvement over existing practice.

Standards-level Programme

Governance

Initiating a project

A major new project is established by the IASB, primarily as a result of the research it has undertaken. The IASB keeps the IFRS Advisory Council informed of work undertaken, new initiatives added and milestones reached. [DPH 5.6]

Development of an Exposure Draft

The IASB is required to decide whether it needs to create (or continue with) a consultative group for the project. [DPH 3.44(b)]

The IASB considers whether it would be helpful to have a public RFI. [DPH 4.15]

Exposure Drafts are released for public comment—generally for four months. [DPH 4.18]

All comment letters received are posted on the IFRS Foundation website and the analysis and discussion of those comment letters are public. [DPH 4.19]

The IASB is required to consider whether it should hold public hearings (round-table meetings). [DPH 3.44]

Finalisation of a Standard

The final project recommendation is discussed by the IASB in a public meeting. [DPH 6.22–6.24]

The IASB must consider, against specific criteria, whether the changes it has made from the Exposure Draft should be exposed as a new proposal. [DPH 6.22–6.29]

If the IASB is satisfied that its consultations have provided it with sufficient information to issue a new Standard, the IASB asks its staff to prepare the Standard for formal balloting by the IASB and publication. [DPH 6.22–6.24]

The DPOC reviews the steps undertaken. [DPH 2.9–2.12, 6.24]

Drafting

The IASB must have adequate quality assurance steps in place to ensure that the drafting of the Standard is clear and consistent. [DPH 3.31–3.33]

Communication

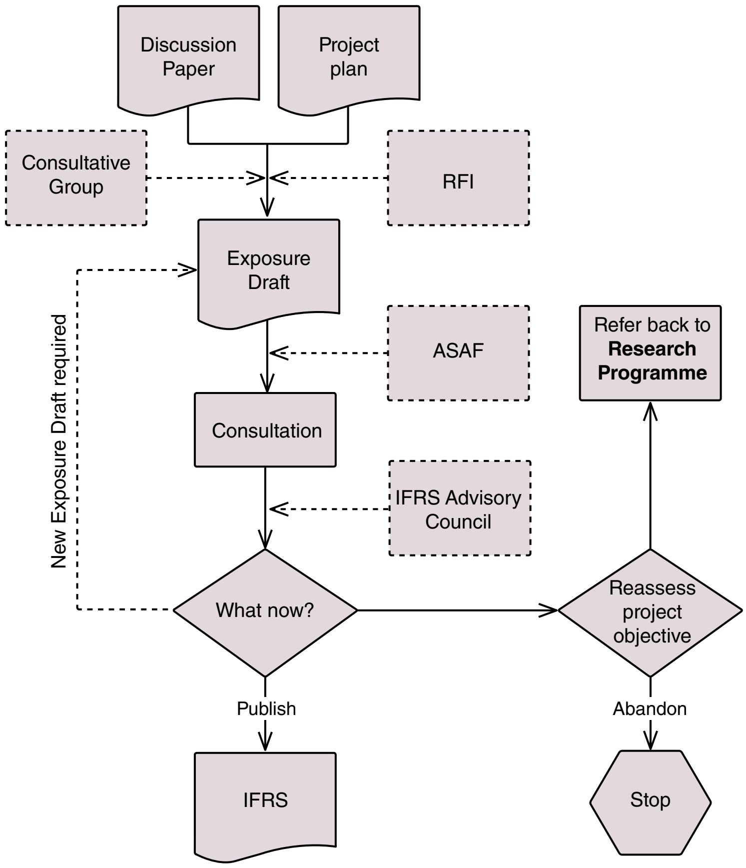
All project information, including work plans, is published on the IFRS Foundation website. [DPH 3.34–3.36]

The IASB updates the IFRS Advisory Council [DPH 3.43], the DPOC [DPH 2.9–2.14], ASAF, securities regulators [DPH 3.55] and prudential regulators [DPH 3.57] on its project plans.

The IASB publishes supporting material, including an Effects Analysis [DPH 6.32], Project Summary and Feedback Statement [DPH 6.36] and additional support material such as question and answer packs, as the IASB sees fit [DPH 6.36].

Post-issuance support

The IASB considers what sort of support it should provide after the Standard has been issued, but before it comes into effect. Examples of support could include educational material and implementation consultative groups. [DPH 6.40]



Consultation and fieldwork

Practice

How are the proposed changes likely to affect how activities are reported in the financial statements of those applying IFRS?

Simulations using databases; new requirements testing on transaction data by preparers.

Preparers

Will preparers need to amend their information systems?

How long are preparers likely to need to implement the new requirements?

What are the likely effects on compliance costs for preparers, both on initial application and on an ongoing basis?

Comment letters; targeted consultation such as expert advisory panels; workshops; new requirements testing; consultations with software vendors.

Investors

How will the improvements to financial reporting lead to better economic decision-making?

How will those changes improve the comparability of financial information between different reporting periods for an individual entity and between different entities in a particular reporting period?

How will the changes improve a user's ability to assess the future cash flows of an entity?

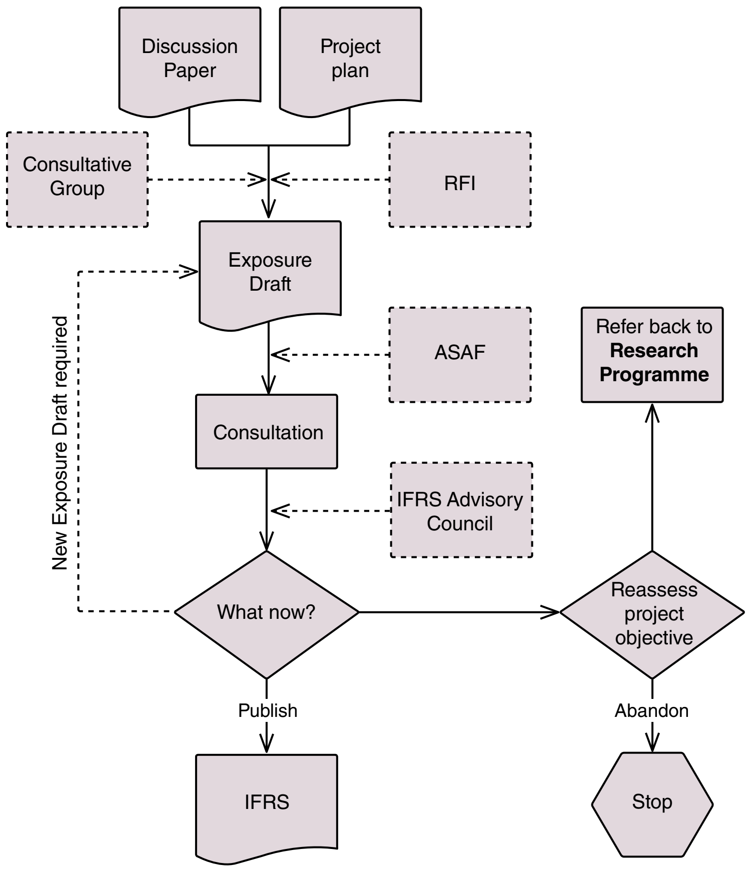
How the likely costs of analysis for users (including the costs of extracting data, identifying how the data has been measured and adjusting data for the purposes of including them in, for example, a valuation model) are affected.

Comment letters; surveys; one-to-one consultation (including structured interviews); feedback from investor consultative groups.

Drafting

Is the proposed Standard drafted clearly, with sufficient application guidance?

Release of a draft of the Standard prepared for editorial review on the IFRS Foundation website or to a selected pool of outside parties; workshops with preparers; internal quality assurance processes, including the use of consistent structure and language.



Exposure Draft

206. The assessment of potential consequences becomes more detailed in the Exposure Draft. The IASB should explain how the proposal will change the financial statements and invite respondents to indicate whether they agree with the IASB's assessment. The IASB should explain not merely the effect of its proposal but what alternatives it considered but rejected.

207. Fieldwork can require significant resources and be expensive to undertake. The IASB will need to consider how much fieldwork to undertake before an Exposure Draft is finalised. The IASB's experience as reported to the Consultative Group in its meetings is that potential participants are more likely to assist the IASB once the proposals are better defined, ie they are more likely to test a proposal in an Exposure Draft than a possible change leading up to an Exposure Draft.

Examples of relevant fieldwork

Assessing investor/analyst needs

208. As a specific proposal is being developed the IASB assesses whether the proposal is likely to produce information that is helpful to investors. This type of assessment can be undertaken by engaging with investors and analysts, using structured interviews and surveys. Archival and experimental studies, such as those undertaken by academics, can also provide evidence of the relevance of financial information.

Drafting assessments (testing understanding)

209. An Exposure Draft contains a specific proposal, implementing the technical conclusions reached by the IASB. It is important that the drafting of the requirements is clear so that those applying the new requirements will read the draft in the same way. During the development of the Exposure Draft, and final Standard, the IASB could gain assurance that the drafting is clear by testing the wording with outside parties.

210. For example, in developing its new consolidation requirements (IFRS 10) the IASB developed a series of examples of typical structured entities (securitisation vehicles) and asked individuals in accounting firms and financial institutions to apply the proposed requirements to those transactions. The purpose was to assess the consistency with which preparers were reading the draft of the proposals.

211. During the development of IFRS 15 *Revenue for Contracts with Customers* the IASB conducted workshops with preparers to assess how they interpreted the drafting of the proposals.

Data and application cost assessments

212. As a specific proposal is developed the IASB can collect information to help it assess whether preparers have the data necessary to meet the financial reporting requirements, the transition and ongoing costs of complying with the proposed requirements and how long preparers need to implement the new requirements. This might be achieved through targeted field testing or with focus groups or expert panels and by consulting with software vendors.

213. In developing the credit impairment chapter of IFRS 9, the IASB established a panel of experts from the banking sector to consult on whether banks would be able to implement the proposals and what system changes would be necessary.

214. In developing IFRS 11, the IASB asked participating entities to document how much effort (in terms of time and level of expertise required) was necessary to assess their existing joint arrangements for classification in accordance with the proposed new model.

New requirements testing

215. Participants are asked to apply the proposed requirements to their own transactions. The main objective is to assess the extent to which the financial reporting outcomes differ from the current requirements. This type of work can also help assess whether the requirements can be applied and the effort required in doing so.

216. In developing the credit impairment model for IFRS 9, the IASB conducted a field test with 15 companies in which each participant estimated the effect on their expected credit loss calculations of applying the proposed expected credit loss model.

217. In developing IFRS 11, participants were asked to apply the proposed classification requirements to their existing contracts.

218. In the Financial Statement Presentation project participants were asked to recast their financial statements using the proposed classification scheme.[27]

219. In developing IFRS 3, the IASB set up a case study describing, in detail, a business acquisition and asked accounting firms and valuation experts to estimate the amount at which they would measure the assets and liabilities on initial recognition, using both the new definition of fair value and the existing definition. The purpose was to determine whether the change in the definition would affect the amounts being recognised.

Simulations (what-if analysis)—IASB staff analysis

220. Simulations, or what-if analysis, can help the IASB assess the possible financial reporting effects of a particular proposal or component of a proposal. These simulations can generally be undertaken by the IASB staff using data extracted from published financial statements.

221. In developing IFRS 3, the IASB collected data for 1,200 companies and assessed the effect on reported equity and estimated what would happen if the entity decided to acquire all of its non-controlling interests. The simulations were designed to assess whether the financial reporting outcomes claimed by companies were likely to occur in practice.

222. In developing the *Leases* Exposure Draft in 2013, the IASB collected information to make estimates of the likely effect on leverage of companies of the proposed financial reporting requirements for leases. These estimates were compared with the estimates from the common rule-of-thumb calculations used by analysts. Also in that project, the IASB calculated the income statement profiles for different types of lease contracts—short-term equipment leases, long-term real estate leases etc—to demonstrate how the accounting would be affected at the contract level.

27 The IASB had a project on Financial Statement Presentation that it suspended in 2010. The descriptions of the fieldwork performed is on the IFRS Foundation website.

Finalising a new Standard

223. The IASB needs to demonstrate that it is satisfied that it has enough information to justify the new requirements. The IASB demonstrates that it understands the likely effects of the requirements and has concluded that the financial reporting will improve as a consequence of the changes, in a cost-beneficial way.

224. In addition, because different solutions affect parties in different ways, it is important for the IASB to explain why it chose a solution that affects some preparers more than others or causes some sectors to bear a greater portion of the costs.

Examples of relevant fieldwork

225. The fieldwork that is relevant to an Exposure Draft would also be relevant to the finalisation of a Standard. The IASB might consider it necessary to supplement or update its fieldwork from the Exposure Draft in the light of feedback received or to assess the likely effect of modifications it intends to make to the proposals.

226. Accordingly, the IASB might undertake additional investor/analyst needs assessments, data and application cost assessments, new requirements testing and simulations (what-if analysis). It might also undertake more fieldwork to ensure that the final Standard is drafted clearly.

Implementation

Governance

Initiating an Interpretation or narrow-scope amendment

The Interpretations Committee is required to consider all requests for interpretation. [DPH 5.16]

The Interpretations Committee considers requests in a public meeting. [DPH 5.18]

If the Interpretations Committee decides that it should not develop an Interpretation it issues a draft rejection notice, which is open for public comment for 60 days. [DPH 5.22]

Developing an Interpretation or narrow-scope amendment

If the Interpretations Committee decides to develop an Interpretation, or a narrow-scope amendment in consultation with the IASB, all related Staff Papers and discussions are public. [DPH 7.6]

All draft Interpretations and narrow-scope amendments (including annual improvements) are released for public comment—for 90 days. [DPH 6.15, 7.11]

Amendments that are narrow, uncontroversial and that correct obvious drafting issues are considered for inclusion in an annual improvements cycle. [DPH 6.10–6.14]

All comment letters received are posted on the IFRS Foundation website and the analysis and discussion of those comment letters are public. [DPH 3.65]

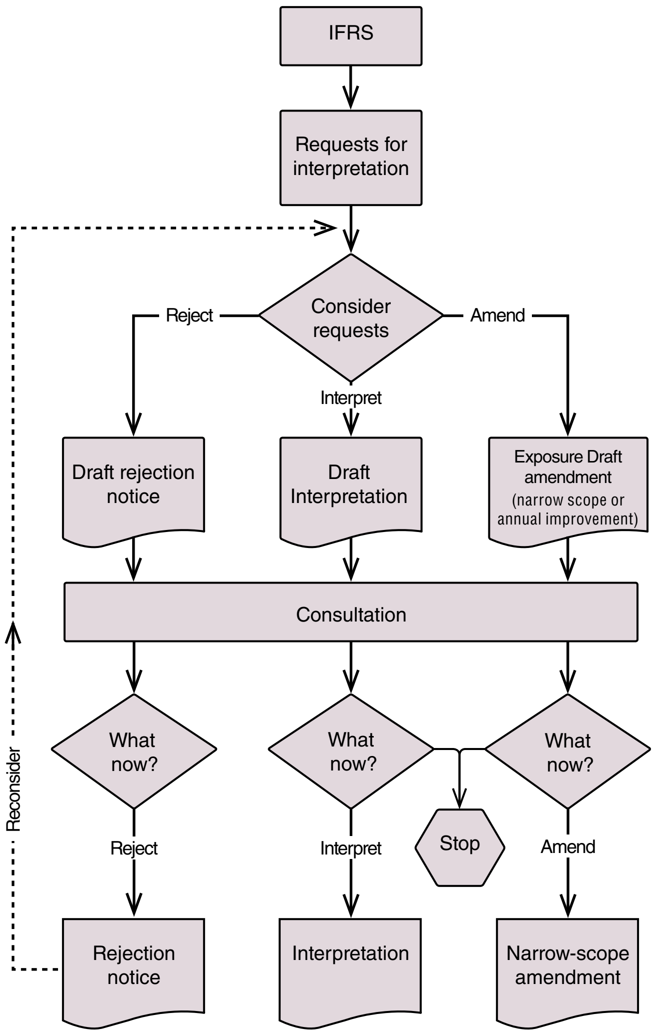
Finalisation

The IASB reviews the analysis and steps taken by the Interpretations Committee, in a public meeting. [DPH 7.23–7.26]

If the IASB is satisfied that it has identified a financial reporting matter for which the IFRS requirements should be changed, it finalises and issues the Interpretation, amendment or annual improvements cycle. [DPH 7.23–7.26]

Communication

All Interpretations and amendments include a Basis for Conclusions. However, a separate report of the likely effects is not considered necessary because maintenance is only undertaken if it reduces compliance costs or reduces diversity in practice.



Consultation and fieldwork

Current practice

How common is a particular type of transaction or event—is it widespread across a broad range of jurisdictions or entities? Are the transactions economically significant? How are the transactions being reporting currently? Is there evidence of diversity in practice?

Examples submitted in the request; empirical reviews of financial statements; examples from securities regulators and other accounting standard-setters.

Investors

Is there evidence that investors are concerned about the matter being considered?

Direct evidence from investors: surveys, consultations, focus groups; academic research.

Potential solutions

Is there a potential interpretation or improvement to the Standard that the IASB can make that is cost-effective, or is there an underlying problem with the Standard?

Consideration of evidence by the Interpretations Committee and the IASB.

Final decision

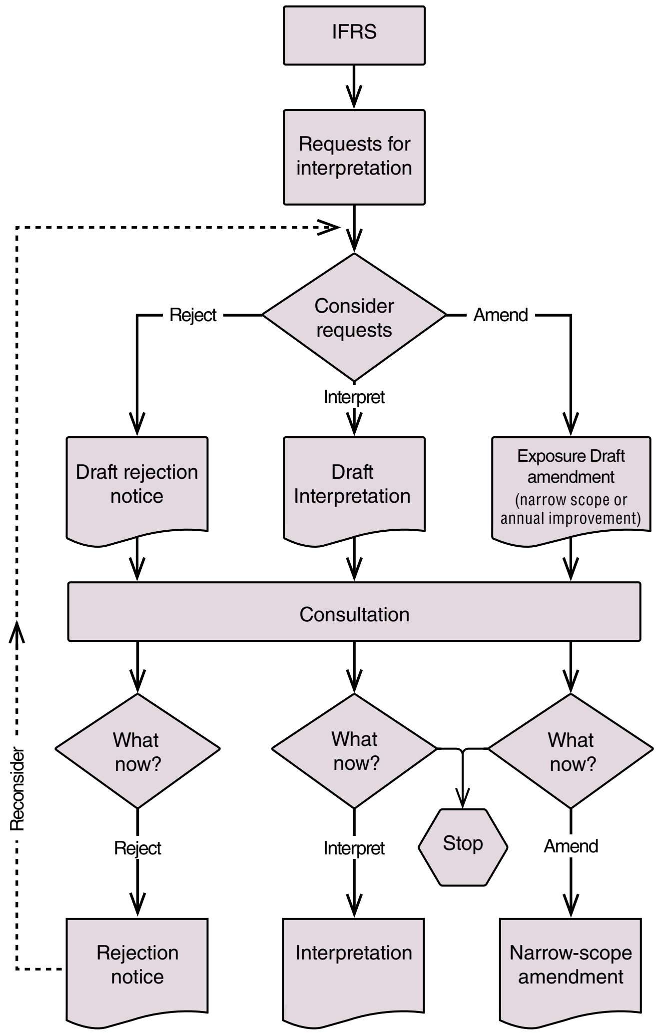
Final decision on appropriate course of action—rejection or issue an Interpretation or narrow-scope amendment.

A rejection could be on the grounds that matter is too significant to be resolved by an Interpretation or narrow-scope amendment. Such matters are fed into the Agenda Consultation and Research Programme.

Analysis and consideration of comment letters and other consultations.

Finalisation and publication

All Interpretations and amendments are subject to internal drafting reviews, but rarely to external such reviews because of their narrow scope.



227. The IASB and the Interpretations Committee are responsible for the maintenance of IFRS.[28] The Interpretations Committee addresses issues:

(a) that have widespread effect and have, or are expected to have, a material effect on those affected;

(b) in which financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and

(c) that can be resolved efficiently within the confines of existing Standards and the *Conceptual Framework*.[29]

228. The Interpretations Committee should undertake fieldwork to help it assess whether matters brought to it for consideration meet these criteria.

Examples of relevant fieldwork

Empirical observation of existing practice

229. When a party requests an Interpretation, the IASB staff could analyse financial statements or economic data to help the Interpretations Committee assess whether there is evidence of diversity in practice. This analysis might be undertaken directly by IASB staff by assessing research undertaken by others, such as reviewing analyst reports. The IASB could also ask others to help collect information about inconsistent practice through a public RFI. However, for Interpretations, a more timely approach could be to ask securities regulators and other accounting standard-setters for evidence of diversity of financial reporting for the type of transaction being assessed.

Post-implementation Reviews

230. In a Post-implementation Review (PIR) the IASB considers whether its assessment of the likely effects was well founded. The PIR completes the cycle.

28 *Due Process Handbook*, paragraph 5.14.
29 *Due Process Handbook*, paragraph 5.16.

Governance

Initiation

The IASB is required to initiate a review of each new Standard and major amendment two to three years after the new requirements are effective; [DPH 6.52] or in response to concerns about a Standard raised with the IASB. [DPH 6.53]

Consultation

The Handbook sets out the factors that the IASB is required to consider in its review.

The IASB has a two-stage review process.

In the first stage, the IASB makes preliminary enquiries with a broad range of constituents to help it determine the likely scope of the review. [DPH 6.56] The IASB uses this information to develop an RFI. [DPH 6.57] The DPOC reviews the RFI before it is published for public consultation, normally for four months. [DPH 6.58]

In the second stage, the IASB considers the comment letters received, potentially supplemented by a review of financial statements, interviews, surveys and a review of academic literature. [DPH 6.60]

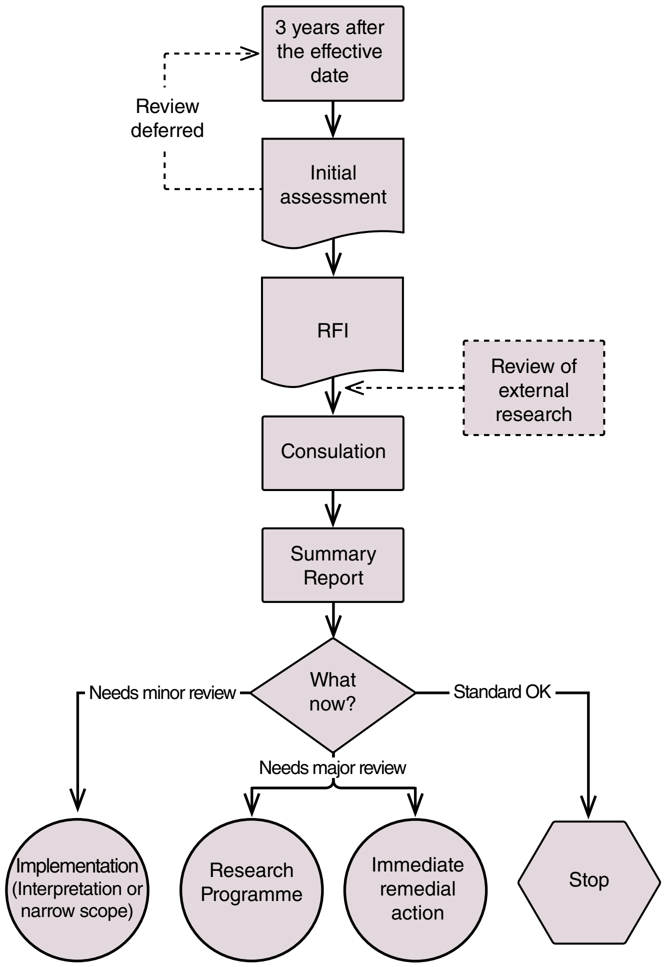
All comment letters received are posted on the IFRS Foundation website and the analysis and discussion of those comment letters are public. [DPH 3.65]

Determinations

When the IASB has completed its review, it prepares a report, a draft of which is reviewed by the DPOC. The IASB may consider making minor amendments to the Standard or preparing an agenda proposal for a broader revision of the Standard. The IASB may also recommend to the DPOC that the IASB should make changes to its procedures, such additional steps that should be taken during the development of a Standard. [DPH 6.62]

Communication

The IASB publishes a Report on its PIR, setting out its findings. [DPH 6.63]



Consultation and fieldwork

Current practice

How has financial reporting changed as a consequence of the new requirements?

Empirical reviews of financial statements; examples from securities regulators and other accounting standard-setters; examples and information provided as a result of the RFI.

Is there evidence that the new requirements have reduced information asymmetries or improved decision making?

Review of academic literature and empirical studies.

Preparers

What unanticipated difficulties have preparers had in applying the new requirements?

(For example, did preparers need to make more significant changes to their systems than anticipated? Was sufficient time given for transition to the new requirements? Were the costs at initial application significantly greater than anticipated? Are the ongoing costs significantly greater than anticipated?)

Has there been some diversity in practice?

Review requests to the Interpretations Committee; feedback from the RFI; feedback from securities regulators.

Investors

What assessment do investors have of the information provided by the new requirements?

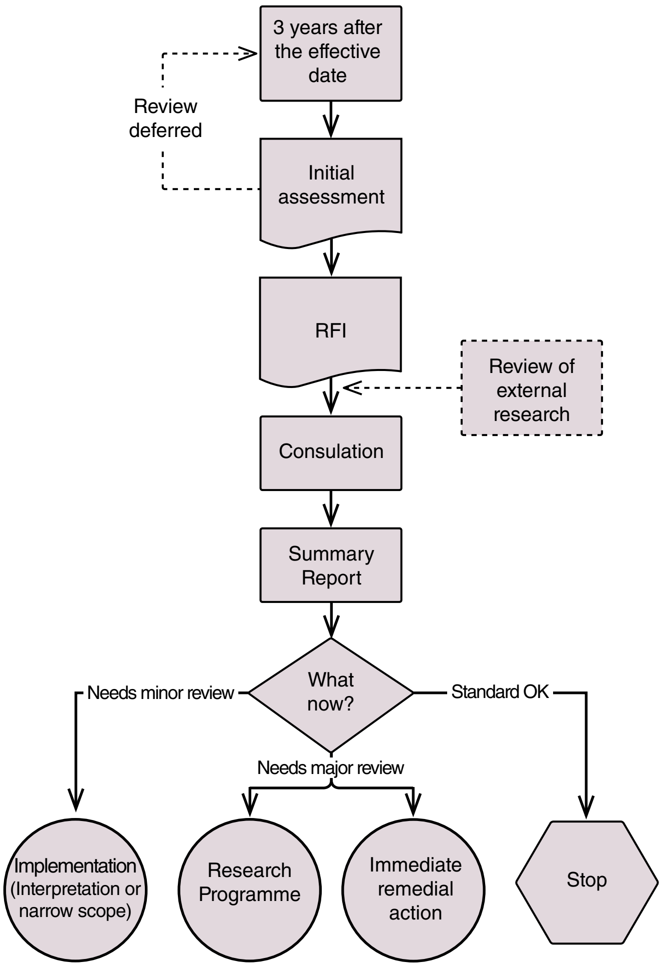
(For example, do investors perceive that they have better information? Are the financial statements more comparable? Have the changes reduced the cost of analysis for users?)

Direct evidence from investors: surveys, consultations, interviews; focus groups; feedback from the RFI.

Drafting

Have there been problems with the clarity of the drafting?

Review drafts to the Interpretations Committee.



231. At the PIR stage, the IASB will be returning to many of the issues it considered when it developed the Standard. In its Summary Report on the likely effects of a new Standard, the IASB will have set out what it expects the effects of the new requirements to be, including the effects on financial reporting, the usefulness of the information and the costs likely to be borne by preparers and investors (and analysts). In a PIR the IASB will be comparing the actual effects with those expectations, as well as identifying unanticipated effects.

Examples of relevant fieldwork

Assessing investor/analyst needs

232. It is important to assess whether the new financial reporting requirements have improved the information available to investors. This is normally achieved by undertaking structured interviews or surveys about the new requirements.

Empirical observation of existing practice and experiences

233. Analysing financial statements can help the IASB assess how the new Standard has changed how the activities it relates to are being presented in the general purpose financial reports, and whether those changes are in line with the IASB's expectations.

234. The IASB needs to consider the timing of a PIR. For example, the planning for the PIR of IFRS 3 included an assessment of merger and acquisition activity to assess whether there had been sufficient relevant activity to make the assessment of IFRS 3 worthwhile. A review of practice and other economic data can inform that decision.

Public consultation

235. Each PIR includes a public RFI. This is supplemented by informal requests to securities regulators, other accounting standard-setters, accounting firms and industry representatives.

Review of independent research

236. The IASB's PIR process is a self-assessment of new Standards. Independent research sources can give the IASB, potentially, unbiased assessments of the implications of its Standards. For example, the PIR of IFRS 8 *Operating Segments* included a review of published empirical research in the academic literature that documented changes to the number of segments being reported as well as providing an initial assessment of whether the usefulness of segment information was affected by the change to the reporting requirements.

Fieldwork

Fieldwork defined

237. The terms 'field testing' and 'fieldwork' have special meaning in some jurisdictions. For example, field testing in some environments means entities running parallel internal systems that mimic complying with the proposed and existing requirements for a full transaction cycle.

238. The IASB uses the term fieldwork as defined in its 2013 revision of the Handbook:

> **Fieldwork**
>
> 3.67 The IASB and the technical staff sometimes use fieldwork to gain a better understanding of how a proposal is likely to affect those who use and apply IFRS.
>
> 3.68 Fieldwork can be undertaken in different ways, including one-to-one visits or interviews with preparers, auditors, regulators or investors who are likely to be affected by the proposals. It can also include workshops where several such parties are brought together or experiments to assess how the proposals might be interpreted or applied.
>
> 3.69 Fieldwork may include:
>
> (a) having participants assess how the proposals would apply to actual transactions or contracts;
>
> (b) having preparers or users complete case studies;
>
> (c) undertaking experiments to assess how users process information; or
>
> (d) assessing how systems are likely to be affected.
>
> Fieldwork may also include gathering examples from practice to help the IASB gain a better understanding of industry practices and how proposed Standards could affect them. It is likely that some fieldwork will be undertaken on all standards-level projects to develop or amend Standards, other than minor or narrow-scope amendments. The IASB and the technical staff will need to assess which, if any, activities are appropriate and proportionate for a particular project, taking into consideration the costs of the activity and what the IASB is likely to learn from the fieldwork.
>
> 3.70 Undertaking fieldwork is not mandatory, but if the IASB decides not to do so, it must explain why to the DPOC and on the project page on the IFRS Foundation website.
>
> 3.71 Feedback from any fieldwork, public hearings or other outreach is summarised in a technical Staff Paper and assessed by the IASB along with the comment letters.

Fieldwork examples

239. The following tables document some of the more common types of fieldwork undertaken by the IASB.

Empirical observation of existing practice
Description of problem How economically significant are particular types of transactions or activities? Is there evidence of divergence in practice? Is there evidence that investors are adjusting the information provided by entities, or using proxies because of a lack of information?
Description of fieldwork or evidence collection The IASB analyses observed financial reporting data to identify current practice, directly or through research undertaken by others. The IASB asks others for evidence of, for example, inconsistent practice—through a public RFI or through informal requests to securities regulators, other accounting standard-setters, accounting firms and industry representatives.
Examples **Research stage** In developing IFRS 11 a comparison was made of how IAS 31 was applied in practice to assess whether there was diversity in practice and to help assess geographical or industry differences in accounting policy choices. Before the Leases project was added to the IASB's agenda an analysis was undertaken of leasing activity—operating and financing—to assess its economic significance. Before the Leases project was added to the IASB's agenda analysts were surveyed to assess whether they were adjusting financial statements for off-balance sheet operating lease commitments. **Implementation** IASB staff often ask securities regulators and other accounting standard-setters for evidence of diversity of financial reporting for the type of transaction being assessed. **PIR** The PIR of IFRS 8 included a review of empirical research documenting changes to the number of segments being reported. The planning for the PIR of IFRS 3 included an assessment of merger and acquisition activity to assess whether there had been sufficient relevant activity to make the assessment of IFRS 3 worthwhile.
Timing This type of fieldwork is most appropriate when the IASB is considering starting a project because it helps identify the existence of potential problems with financial reporting and assess the economic significance of the activity. It is also appropriate after the new requirements have become effective, in a PIR.
Advantages The empirical observations are objective and can be gathered at relatively low cost. It is a cost-effective way to collect evidence.

Assessing investor/analyst needs

Description of problem

Will the information that results from the proposed financial reporting requirements meet the needs of investors?

Description of fieldwork or evidence collection

Participants are asked in structured interviews, or through surveys, targeted questions about measurement and disclosure requirements.

Examples

Most projects include direct interactions of this nature with investors.

Timing

This type of fieldwork can be conducted at any stage of the project, with more general assessments being made at the formative stages.

Advantages

Can provide insights into the way investors think. Surveys provide broad-based, albeit relatively shallow, evidence. They can help corroborate the more detailed analysis undertaken in outreach with individual stakeholders.

Disadvantages

It can be difficult to get access to investors (analysts) for in-depth interviews. This limits the sample pool and makes it more difficult to generalise the results to the wider population of investors. There are also different types of investor (sell-side, buy-side etc). It can also be difficult to make these interactions with individual investors publicly available.

Drafting assessments

Description of problem

Has the proposed Standard or Interpretation been drafted clearly, so that those applying the new requirements would read the draft in the same way?

Description of fieldwork or evidence collection

Participants are asked to apply the proposed requirements to transactions generated by the IASB to assess the clarity of the proposed wording.

This type of exercise can be one-to-one or in workshops.

Examples

In developing its new consolidation requirements (IFRS 10) the IASB developed a series of examples of typical structured entities (securitisation vehicles) and asked individuals in accounting firms and financial institutions to apply the proposed requirements to those transactions. The purpose was to assess the consistency with which preparers were reading the draft of the proposals.

During the development of IFRS 15 the IASB conducted workshops with preparers to assess how they interpreted the drafting of the proposals.

Timing

This type of fieldwork is more appropriate when the IASB is close to completing a project. The work is labour-intensive and therefore costly for participating entities—they are more likely to be willing to participate if they know that they are helping the IASB determine the final Standard.

Advantages

Provides a relatively deep and detailed analysis.

Disadvantages

Can be costly to undertake.

Data and application cost assessments
Description of problem Participants are asked to assess whether they have the information necessary to meet the financial reporting requirements and/or to assess the transition and ongoing costs of complying with the proposed requirements.
Examples In developing the credit impairment chapter of IFRS 9, the IASB established a panel of experts from the banking sector to consult on whether banks would be able to implement the proposals and what sort of system changes would be necessary. In developing IFRS 11, the IASB organised participating entities to document how much effort (in terms of time and level of expertise required) was necessary to assess their existing joint arrangements for classification.
Timing This type of fieldwork can be conducted at any stage of the project, with more general assessments being made at the formative stages.
Advantages Provides data directly from preparers.
Disadvantages It is difficult to get accurate assessments of implementation costs. The limited assessments of adoption of IFRS suggest that preparers tend to overestimate, or sometimes overstate, the likely costs of implementation.[31]

30 FEI, *The cost of IFRS transition in Canada*, July 2013, and Korea Accounting Standards Board/Financial Supervisory Service, *IFRS Adoption and Implementation in Korea, and the Lesson Learned*, December 2012.

New requirements testing

Description of problem

Participants are asked to apply the proposed requirements to their own transactions. The objective is to assess the extent to which the financial reporting outcomes differ from the current requirements.

Examples

In developing the credit impairment model for IFRS 9, the IASB conducted a field test with 15 companies in which each participant estimated the effect on their expected credit loss calculations of applying the proposed expected credit loss model.

In developing IFRS 11, participants were asked to apply the proposed classification requirements to their existing contracts.

In developing possible Financial Statement Presentation requirements, participants were asked to recast their financial statements using the proposed classification scheme.

In developing IFRS 3, the IASB set up a case study describing, in detail, a business acquisition and asked accounting firms and valuation experts to estimate the amount they would measure the assets and liabilities on initial recognition using both the new definition of fair value and the existing definition. The purpose was to determine if the change in the definition would affect the amounts being recognised.

Timing

This type of fieldwork is more appropriate when the IASB is close to completing a project. The work is very labour-intensive and therefore costly for participating entities—they are more likely to be willing to participate if they know that they are helping the IASB determine the final Standard.

Advantages

Provides a deep and detailed analysis.

Disadvantages

Many entities are unwilling to participate if they are identified—they cite securities laws, or reputation risk—which makes it difficult to get a representational sample.

Some simulations can be expensive to run, if they involve outside parties. Some participants in the credit impairment testing spent over 600 person-hours of effort; in the IFRS 3 simulations most participants spent over 100 person-hours on the case study.

Involving external parties can create confidentiality issues, particularly when the parties are asked to use their judgement in running the simulations. The IASB was not able to make the IFRS 9, IFRS 3 or Financial Statement Presentation results publicly available. In the IFRS 9 and Financial Statement Presentation cases, the IASB received legal advice that indicated that the information was potentially price-sensitive and therefore subject to securities law disclosure limitations.

Simulations (what-if analysis)—IASB staff analysis

Description of problem

The IASB undertakes hypothetical what-if analysis on data sets of observed financial reporting data to assess the possible financial reporting effects of a particular proposal or component of a proposal.

Examples

In developing IFRS 3, the IASB collected data for 1,200 companies and assessed the effect on reported equity and estimated what would happen if the entity decided to acquire all of its non-controlling interests. The simulations were designed to assess whether the financial reporting outcomes claimed by companies were likely to occur in practice.

In developing the *Leases* Exposure Draft in 2013, the IASB collected information and used it to make estimates of the likely effect on leverage of companies of the proposed financial reporting requirements for leases. These estimates were compared with the estimates from the common rule-of-thumb calculations used by analysts. Also in that project, the IASB calculated the income statement profiles for different types of lease contracts—short-term equipment leases, long-term real estate leases etc—to demonstrate how the accounting would be affected at the contract level.

Timing

This type of fieldwork can be undertaken at any stage of the project.

It is beneficial at the research stage to assess whether mooted changes to financial reporting requirements are likely to materially affect how transactions are portrayed in financial statements—if there is little effect it is questionable as to whether it is worth imposing costs to change the financial reporting requirements.

It is beneficial at the Exposure Draft and Standard stages to demonstrate what the effect of the new requirements is intended to be

Advantages

It can be cost-effective—some simulation work is 'desktop' research such as presenting schedules to demonstrate how the accounting for an existing contract would change (for example, the lease contract calculations).

Can have a high educational value because they demonstrate the intended financial reporting outcomes.

In many cases there are no confidentiality problems because the contracts and scenarios can be expressed in general terms.

Disadvantages

Simulations are hypothetical and assume that there is no change in any other factors. For example, the estimates made in relation to the *Leases* Exposure Draft in 2013 on leverage assumed that entities would continue to contract for their assets in the same way before and after the Standard takes effect. In practice it is likely that entities will review their contractual arrangements when new requirements are developed.

Background and history

IFRS Foundation strategy review

A1. IFRS 8 *Operating Segments* and IFRS 3 *Business Combinations* were the first major Standards finalised by the International Accounting Standards Board (IASB) after the adoption of International Financial Reporting Standards (IFRS) by the European Union. EU regulations stipulate that the Standards issued by the IASB can be adopted only if:

(a) they are not contrary to the principle of the true and fair view set out in the Accounting Directives of the EU;

(b) they are conducive to the European public good; and

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

A2. As part of its assessment of new Standards, the European Commission prepared a report *Endorsement of IFRS 8 Operating Segments—Analysis of Potential Effects* in 2007. The IASB did not prepare its own report, but did commit itself to undertaking a Post-implementation Review (PIR) of the Standard. In 2008 the European Commission published *Endorsement of IAS 23 Borrowing Costs Effect Study* as part of its assessment of that Standard.

A3. In April 2007 the Trustees announced that 'it would be beneficial to develop a more explicit framework for evaluating the relative costs and benefits of its proposals and that this framework should become part of the IASB's due process.' The IASB's first, separate, Effects Analysis was *IFRS 3 Project summary, feedback and effects analysis*, which accompanied IFRS 3 in 2008. The IASB had not, at that stage, developed a framework for considering effects. When the European Commission published *Endorsement of revised IFRS 3 Business Combinations and amended IAS 27 Consolidated and Separate Financial Statements* the report included the IASB's Effects Analysis.

A4. This was followed in 2011 with Effects Analysis Reports accompanying IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*.

A5. In the February 2012 report of the Trustees' Strategy Review 2011 the Trustees of the IFRS Foundation asked the IASB to set up a comprehensive body to support the IASB in implementing (or further embedding) effects analyses within the IASB's due process. The report states:

> The Trustees believe that the organisation could benefit from receiving guidance in developing an agreed methodology for field testing and effects analyses. Consequently, the Trustees are recommending the establishment of a working group from the international community, chaired by the IASB, to develop an agreed methodology for field testing and effects analyses.

A6. In 2013 the Effects Analysis Consultative Group (the 'Consultative Group') was formed to support the IASB in implementing effects analyses within the IASB's due process and to strengthen that process by enhancing transparency. This is likely to increase the accountability and credibility of the IASB and to contribute positively to delivering improved financial reporting.

What does the IASB do now?

A7. The way the IASB develops new financial reporting requirements has changed over the last 10 years. In this section of the report the Consultative Group describes three aspects of the IASB's activities that formed part of the review:

(a) IASB due process;

(b) IASB practice; and

(c) the IASB's experiences to date in presenting effects analyses.

IASB due process

A8. The IFRS Foundation's *Constitution* (the 'Constitution') gives the IASB full discretion in developing and pursuing its technical programme and in organising the conduct of its work. However, the Trustees and the IASB have established consultative procedures designed to protect the integrity of the standard-setting process. These procedures are described by the IASB as the *Due Process Handbook* (the 'Handbook') and are built on the principles of transparency, full and fair consultation—considering the perspectives of those affected by IFRS globally—and accountability. The procedures are designed to give the IASB 'a better understanding of different accounting alternatives and the potential effect of the proposals on affected parties.'[31]

A9. The procedures are documented in the Handbook, which the Trustees review periodically with the IASB. Until 2006 the IASB had been following the general procedures set out in the Constitution. In 2004 the Trustees and the IASB decided to enhance the procedures, which led to the publication of the first IASB *Due Process Handbook* in 2006. The procedures set out in that Handbook drew upon, and expanded the practices of, other accounting standard-setters and regulatory bodies.

A10. At that time it included a section on cost-benefit analysis:

> **Cost/benefit analysis**
>
> 107 The IASB weighs cost/benefit considerations as a part of its deliberation, although a formal quantitative assessment of the costs and benefits is not practicable. The IASB notes that there is still a lack of sufficiently well-established and reliable techniques for quantitative cost/benefit analyses in the fields of policy for which the IASB is competent. The IASB gains insight on the costs and benefits of standards through its consultations, both via consultative publications (discussion papers, exposure drafts etc.) and communications with interested parties (liaison activities, meetings etc.). The IASB's views on cost/benefit questions are reflected explicitly in the basis for conclusions published with each exposure draft and IFRS.
>
> 108 The IASB notes, as other standard-setters have noted, that the evaluation of costs and benefits is necessarily subjective. In making its judgement, the IASB considers
>
> - the costs incurred by preparers of financial statements
> - the costs incurred by users of financial statements when information is not available
> - the comparative advantage that preparers have in developing information, when compared with the costs that users would incur to develop surrogate information
> - the benefit of better economic decision-making as a result of improved financial reporting.

31 *Due Process Handbook*, paragraph 1.2.

A11. In July 2009 it was updated, enhancing the oversight of the IASB through the Trustees' Due Process Oversight Committee; adding sections on the purpose and benefits of 'Project Summaries' and 'Feedback Statements'; renaming the section on 'Cost/Benefit Analysis' to 'Impact Analysis'; and adding a section setting out requirements for PIRs.

A12. The Trustees also acknowledged the importance of considering effects beyond merely 'costs and benefits' and amended the due process requirements to state:

> … the IASB prepares an analysis of the likely effects of the forthcoming IFRS or major amendment. The IASB has undertaken to provide such information to jurisdictions that adopt IFRSs. The IASB is committed to imparting information and sharing knowledge on the likely costs of implementing a new requirement and the ongoing associated costs. The IASB also documents what it learned during the development of the IFRS about the likely costs of implementing a new requirement and the subsequent ongoing costs, and the likely effect of an IFRS on the quality of the information that entities will provide to users. The analysis will therefore attempt to assess the likely effects of the new IFRS on:
>
> - the financial statements of those applying IFRSs
> - the possible compliance costs for preparers
> - the costs of analysis for users (including the costs of extracting data, identifying how the data have been measured and adjusting data for the purposes of including them in, for example, a valuation model)
> - the comparability of financial information between reporting periods for an individual entity and between different entities in a particular reporting period and
> - the quality of the financial information and its usefulness in assessing the future cash flows of an entity.

A13. In 2013 the IASB amended its due process requirements to require that the effects must be considered by the IASB and that their analysis must be included in or with the Basis for Conclusions. In this way the deliberations and analysis of the IASB would be part of the documents on which the IASB formally voted.[32]

A14. In February 2011 the Trustees introduced a three-yearly public review of the IASB's technical work programme.

A15. The most recent version of the IASB's due process requirements was issued by the Trustees in February 2013, following a major review and rewrite of the IASB's and the IFRS Interpretations Committee's *Due Process Handbooks*. There is now only one, known as the *IASB and IFRS Interpretations Committee Due Process Handbook*. Among the changes made were:

(a) the inclusion of a more extensive discussion of the process of assessing the likely effects of a Standard. The Handbook reflected the fact that the IASB had begun the process of embedding this assessment throughout the development of a Standard rather than simply having an assessment document at the end of the process.

(b) a new Research Programme was described, which has become the development base from which potential Standards-level projects are identified. The use of a Discussion Paper as the first external due process document has been moved into this Research Programme and will normally precede any proposal to add a major Standards-level project to the IASB work programme. Previously, a Discussion Paper was required as a step after a project has been added to the Standards-level programme.

(c) the sections that explain why PIRs were expanded, broadening their scope and describing in more detail how the IASB expects to develop each review.

32 This process is referred to as 'balloting' in the *Due Process Handbook*.

(d) the manner in which the IASB uses fieldwork to support the development of Standards is explained. Fieldwork can include components of field tests and field visits, but may also include other methods of collecting information to assess the feasibility and cost of a potential Standard.

A16. The revised Handbook states:

Effects Analysis

3.73 The IASB is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and the likely ongoing associated costs and benefits of each new Standard—the costs and benefits are collectively referred to as effects. The IASB gains insight on the likely effects of the proposals for new or revised Standards through its formal exposure of proposals and through its fieldwork, analysis and consultations with relevant parties through outreach activities. The likely effects are assessed:

(a) in the light of the IASB's objective of financial reporting transparency; and

(b) in comparison to the existing financial reporting requirements.

3.74 The IASB will assess the likely effects throughout the development of a new or amended Standard. In particular, the IASB's views on the likely effects are approved by the IASB and presented as part of, or with, the Basis for Conclusions that is published with each Exposure Draft and Standard.

3.75 In forming its judgement on the evaluation of the likely effects, the IASB considers issues such as:

(a) how the proposed changes are likely to affect how activities are reported in the financial statements of those applying IFRS;

(b) how those changes improve the comparability of financial information between different reporting periods for an individual entity and between different entities in a particular reporting period;

(c) how the changes will improve the user's ability to assess the future cash flows of an entity;

(d) how the improvements to financial reporting will result in better economic decision-making;

(e) the likely effect on compliance costs for preparers, both on initial application and on an ongoing basis; and

(f) how the likely costs of analysis for users (including the costs of extracting data, identifying how the data has been measured and adjusting data for the purposes of including them in, for example, a valuation model) are affected. The IASB should take into account the costs incurred by users of financial statements when information is not available and the comparative advantage that preparers have in developing information, when compared with the costs that users would incur to develop surrogate information.

3.76 The analysis is not expected to include a formal quantitative assessment of the overall effect of a Standard. Initial and ongoing costs and benefits are likely to affect different parties in different ways. The level of analysis is tailored to the type of changes proposed, with more analysis undertaken for new Standards and major amendments.

IASB practice

Project proposals—adding a project to the work programme

A17. In 2012 the IASB separated its work programme into a Research Programme and a Standards-level programme. In its Feedback Statement on the inaugural Agenda Consultation the IASB stated:

> … the IASB will promote a broad research and development programme that will emphasise the defining of the problem to be solved in each possible project the problem.
>
> The research process will include an assessment of whether the IASB should undertake a project to change a Standard or develop a new Standard. We might conclude that no standards-level project is necessary. Identifying that there is indeed a problem that warrants fixing is essential. Every new or amended Standard is a solution to a problem. If that problem is not well defined, or if the need for a solution has not been established, this can make it more difficult to provide an effective solution.
>
> With this approach the IASB, sometimes in conjunction with its network of accounting bodies, will develop Research Papers or Discussion Papers as the first step in assessing whether an interested party has identified a potential problem that merits the IASB developing a standards-level solution.
>
> Once we have determined that a project to change a Standard is justified, identifying when a project should be added to the work programme to implement a change is a second-order question. For each issue, the staff will provide the IASB with information to help it understand, with evidence, the breadth and depth of the problem. The staff will also provide an assessment of the potential solutions, making a preliminary assessment of the relative costs and benefits of each approach. This could involve the consideration of studies related to that problem, or to analogous problems. We might also want to consult preparers and investors on potential solutions, so that we can learn more about the potential costs of different options and identify areas in which investors say that the information they receive now is deficient. This will help the IASB to eliminate choices where the benefits are unlikely to exceed the costs.
>
> Projects will only become standards-level projects when the IASB is confident that the problem is defined properly and that the staff have identified solutions that are of high quality and are implementable.

A18. Prior to this initiative the IASB developed *agenda proposals*, which were proposals to add a project to its agenda, with a Discussion Paper generally being the first milestone. These proposals were normally presented to, and discussed with, the IFRS Advisory Council before being added to the work programme.

A19. To illustrate, when the Leases project was first proposed to the IASB in a public meeting in March 2006, the IASB discussed a Discussion Paper setting out a case for a project that considered:

(a) the relevance to users of the information involved and the reliability of information that could be provided;

(b) the existing guidance available;

(c) the possibility of increasing convergence;

(d) the quality of Standards to be developed; and

(e) the extent of any resource constraints.

A20. These criteria reflected the IASB's constitutional requirements at the time.

A21. From initiation of the project to the release of the second Exposure Draft in 2013 the IASB discussed over 250 Staff Papers in 43 separate IASB public meetings. The Staff Papers, which included reviews of academic literature, comment letter analyses, reports of outreach meetings and analyses of alternatives being considered by the IASB, are all available on the Leases project pages of the IFRS Foundation website. The project pages also include information about outreach activities, including feedback from investors as well as summaries and recordings of all of the IASB's public discussions.

A22. Although all of this information is on the IFRS Foundation website, it would take considerable effort for anyone, including an endorsement body, to extract the information relevant to its requirements.

Basis for Conclusions

A23. The IASB summarises its analysis and assessments in public documents. When the IASB issues an Exposure Draft and a final Standard it publishes an accompanying *Basis for Conclusions*. For an Exposure Draft, the Basis for Conclusions sets out the IASB's rationale for the decisions it made in developing the proposal. For a Standard, the Basis for Conclusions sets out the IASB's reasons for selecting between options and why it may have changed the proposed requirements in the Exposure Draft.

A24. However, despite being a summary of the IASB's discussions, the Consultative Group observed that a Basis for Conclusions can be a lengthy document. The Basis for Conclusions for the Exposure Draft ED/2013/6 *Leases* was over 170 pages. Each Basis for Conclusions is structured to align with the structure of the Exposure Draft or Standard to which it relates. The aspects of a Standard that might have the most significant effects might be discussed in the middle of a large document. This can make it difficult for someone with a particular interest in assessing the likely effects of the Standard to find the relevant discussion.

A25. The focus and balance of the Basis for Conclusions has changed over the last few years. For the first Leases Exposure Draft, ED/2010/9 *Leases*, the Basis for Conclusions focused on cost-benefit considerations, reflecting the due process requirements at the time. That analysis was a relatively small part of the Basis for Conclusions. The Basis for Conclusions accompanying the 2013 *Leases* Exposure Draft devotes significantly more analysis to the likely effects of the proposals. This reflects the evolving due process requirements of the IASB. The Leases project is the first in which the IASB has highlighted an analysis of the likely effects, and asked questions about its assessment, at the Exposure Draft stage.

Accompanying material

A26. The IASB publishes material to accompany new Standards to make interested parties more aware of the new financial reporting requirements by providing focused, and sometimes simplified, summaries of the requirements and the reasons for making the changes. The Handbook acknowledges the importance of communication material:

> 6.37 Before the IASB issues a Standard, or an amendment to a Standard, the technical staff decide what communications material should be developed to accompany the release. All changes to Standards must be accompanied by a press release. The IASB usually announces the publication of the Standard using email alerts.
>
> 6.38 The publication of all new Standards and major amendments must be accompanied by a Project Summary and Feedback Statement. Depending on the nature of the new requirements, the IASB and its staff might also develop, and make freely available, a podcast, webcast, Question and Answer (Q&A) pack or presentation (speech) pack. The more significant the changes to the Standards, the more comprehensive the related communications package is likely to be.

Feedback Statement

A27. The Handbook defines a Feedback Statement as:

> a document that gives direct feedback to the comments that were submitted on the Exposure Draft. It identifies the most significant matters raised in the comment process and explains how the IASB responded to those matters.

A28. The IASB views a Feedback Statement as, primarily, a communications document. It is written for a less technical audience than the Basis for Conclusions and focuses on the more significant aspects of the new Standard rather than on all of the technical decisions. A Feedback Statement is not part of the balloted documents and does not require formal sign-off by the IASB. Each Feedback Statement has material drawn from the Basis for Conclusions and is released at the same time as the Standard.

Effects Analyses

A29. During the development of IFRS 8 and the revised IFRS 3 the IASB was asked to consider a broader range of effects. The European Commission prepared a report on IFRS 8 to meet its assessment criteria. The first Effects Analysis prepared by the IASB was for the revised IFRS 3. This document was compiled after the IASB had concluded its deliberations. The IASB also prepared and published Effects Analysis Reports for IFRS 10, IFRS 11 and IFRS 12 *Interests in Other Entities*.[33]

A30. The differences between the IFRS 3 and the IFRS 10 and IFRS 11 analyses highlighted that the IASB had not established clear procedures for undertaking or presenting its consideration of the likely effects of its Standards. The Trustees acknowledged a lack of a consistent understanding of what factors the IASB should consider and how it should present the analysis. Consequently, the Trustees amended the due process requirements and asked the IASB to establish the Consultative Group.

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33 IFRS 12 did not have a separate Effects Analysis because it contains disclosure requirements related to IFRS 10 and IFRS 11. The likely effects of IFRS 12 were therefore considered in the IFRS 10 and IFRS 11 documents.

Glossary and bibliography

Glossary

Comment letter: a letter received by the IASB in response to a consultation document. All comment letters are made public and can be viewed on the IFRS Foundation website.

Consultative group: a group that the IASB or the IFRS Interpretations Committee consults. Such groups provide the IASB with feedback based on research, experience or background, for example, in order to offer different perspectives on a given topic. Consultative groups have their membership reviewed and endorsed by the Due Process Oversight Committee. For each new Standard or major amendment, the IASB must consider whether it should establish a consultative group. If the IASB decides not to establish a consultative group it must explain its reasons in a public meeting.

Discussion Paper: a paper issued by the IASB that presents the analysis and collective views of the IASB on a particular topic. The matters presented will have been discussed in public meetings of the IASB. Discussion Papers are issued for public comment, the feedback from which informs the IASB and helps it to assess whether and how to develop a new or amended Standard.

Draft for editorial review: a draft of a due process document that the IASB and its staff use to gather drafting feedback. A draft for editorial review might be distributed to selected groups or be made available more generally on the IFRS Foundation website, or both. Reviewers are asked whether the draft document is clear and reflects the technical decisions made by the IASB. A draft for editorial review does not include an invitation to comment because the purpose of such a review is not to question the technical decisions. A draft for editorial review is not a mandatory step.

Due Process Oversight Committee (DPOC): the committee of the Trustees of the IFRS Foundation responsible for the oversight of the IASB's activities in developing and maintaining Standards and Interpretations.

Effects analysis: a process for assessing the likely effects of a proposed Standard, which is undertaken as the new requirements are developed, culminating in an analysis presented as part of, or with, the Basis for Conclusions published with a new Standard that summarises the IASB's assessment of the likely effects of the new requirements.

Endorsement body: in this report the term 'endorsement body' refers to a body or organisation that is involved in the process of having IFRS incorporated or endorsed for application within a particular jurisdiction. Endorsement bodies can include securities regulators, standard-setters, advisory bodies or government agencies or departments. Within Europe, for example, endorsement bodies would include the European Commission, EFRAG and other accounting standard-setters, each of which has a role in assessing IFRS.

Exposure Draft: a draft of a proposed Standard, amendment to a Standard or Interpretation. An Exposure Draft sets out a specific proposal and includes a draft Basis for Conclusions and, if relevant, alternative views. An Exposure Draft is a mandatory due process step.

Feedback Statement: a document that gives direct feedback to the comments that were submitted on the Exposure Draft. It identifies the most significant matters raised in the comment process and explains how the IASB responded to those matters.

Fieldwork: work conducted with interested parties to help the IASB assess the likely effects of a proposed Standard. Fieldwork might include experimentally applying new proposals to individual transactions or contracts as if the proposed Standard was already in effect, asking for feedback on the proposed wording of a particular proposal or assessing the extent of system changes that would be required if a proposed Standard was implemented. Fieldwork also includes gathering examples from practice to help the IASB gain a better understanding of industry practices and how proposed Standards could affect them.

IFRS: Standards and Interpretations issued by the IASB. They comprise (a) International Financial Reporting Standards; (b) International Accounting Standards (IASs); (c) IFRIC Interpretations; and (d) SIC Interpretations.

IFRS Advisory Council: an advisory body that provides a formal vehicle through which organisations and individuals with an interest in international financial reporting can participate. The participants have diverse geographical and functional backgrounds. The Advisory Council's objective is to give advice to the IASB on priorities, agenda decisions and on major standard-setting projects. The members of the Advisory Council are appointed by the Trustees.

Interpretations: Interpretations are developed by the IFRS Interpretations Committee before being ratified and issued by the IASB. Interpretations carry the same weight as a Standard.

Invitation to comment: a document that accompanies a Discussion Paper or Exposure Draft and sets out the matters on which the IASB is seeking feedback.

Post-implementation Review (PIR): a review of a Standard or major amendment to a Standard. It is undertaken by the IASB.

Public hearing: a meeting with interested organisations to listen to, and exchange views on, specific topics. Public hearings include round-table meetings and discussion forums.

Re-exposure: a formal request for comments on a revised version of an Exposure Draft.

Research Paper: a paper issued by the IASB that was not developed in public meetings, thereby distinguishing it from a Discussion Paper. Research Papers may be prepared by the staff of the IASB or by one or more people seconded to the IASB with the purpose of developing the paper. Research Papers may also be prepared by other standard-setters or bodies, normally at the request of the IASB. A Research Paper is not a mandatory due process step.

Request for Information (RFI): a formal consultation step that the IASB undertakes to receive feedback and information on a specific aspect of one of its projects. A Request for Information normally helps the IASB to prepare an Exposure Draft or finalise a Standard. A Request for Information is not a mandatory due process step.

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Notes

International Accounting Standards Board® (IASB®)
The IASB is the independent standard-setting body of the IFRS Foundation®

30 Cannon Street | London EC4M 6XH | United Kingdom

Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411
Email: info@ifrs.org | Web: www.ifrs.org

Publications Department
Telephone: +44 (0)20 7332 2730 | Fax: +44 (0)20 7332 2749

Email: publications@ifrs.org