

## International Financial Reporting Standards

# GPF: Preparing Effects Analyses

## Agenda paper 2

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

- Background
  - what is an Effects Analysis?
- What are we doing now?
- Focus
- Approach used
- We are still learning
- Question for discussion:
  - What do you expect to see contained in an Effects Analysis?
  - Appendix A *Illustrative examples*

# Background

- Effects analysis demonstrates how the IASB makes decisions in developing Standards for key issues
- What information does the IASB use to make decisions?
  - Throughout development of IFRS (eg DP, ED)
  - Consultations:
    - publications (eg DP, ED)
    - communications with interested parties (outreach) (eg fieldwork, meetings or round tables)
  - Research:
    - databases
    - academic articles
    - surveys (eg audit firms)

- Qualitative assessment
  - Rarely possible to assess quantitative effect
- Likely effects on:
  - Financial statements of those applying IFRSs
  - Possible compliance costs for preparers
  - Costs of analysis for users
  - Comparability of financial information
  - Quality of financial information and usefulness in assessing future cash flows of an entity  
[Para 50 in IASB *Due Process Handbook*]
- May provide jurisdictions with input for their regulatory impact assessment

# What are we doing now?

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- Currently, documented at IFRS stage only
- Staff prepare Separate Effects Analyses
  - major projects only
  - Business Combinations, Consolidation and Joint Arrangements

# Focus of effects analysis

- Meet the objective of financial reporting
- Assesses how the new Standard could improve financial reporting (meeting the objective of financial reporting)
- Based on IFRS Foundation Constitution
- The *Conceptual Framework* acknowledges that IFRSs have economic effects
  - Regular meetings with Basel Committee and other regulators

Different approaches reflect types of changes made  
(See Appendix A)

- Business Combinations
  - Likely effects on key contentious issues and whether the new Standard could affect particular transactions based on data gathered
  - ‘What-if’ analysis
- Consolidations
  - Because of inconsistent application
  - Used case studies on how IFRS 10 could improve
  - Included likely effects on contentious questions (eg more consolidation?)

- Joint Arrangements
  - Removed proportionate consolidation
  - Used data that IFRS 11 may not lead to change for most joint arrangements
    - Eg Likely industries that could be affected
- Other projects:
  - FI: Impairment → will use information from Expert Advisory Group
  - Leases → use information from field tests



# We are still learning

“We see this effect analysis document as being part of an evolving process. It is embedded in our standard-setting process and we are committed to improving it as we develop new requirements.”

[IFRS 11 Effects Analysis]

- Strategic Review 2011 → IASB to set up working group on methodology of effects analyses
- IASB will approve the effects analyses
- Will be documented in all due process documents throughout development of IFRS
  - Formalising steps
  - More transparent

What do you expect to see documented in an Effects Analysis?

- Appendix A contains examples
- Guidance from Draft *Due Process Handbook* (next slide)

- a) how likely to affect activities in the financial statements
- b) how improve the comparability
- c) how improve the quality of the financial information and its usefulness in assessing the future cash flows
- d) benefit of better economic decision-making as a result of improved financial reporting
- e) likely effect on compliance costs for preparers (initial application and on an ongoing basis)
- f) likely costs of analysis for users (eg the costs of extracting data, identifying how the data has been measured and adjusting data for the purposes of including them in valuation model)

