

STAFF PAPER

April 2013

Effects Analysis Consultative Group

Effects Analysis - Scope

CONTACT Alan Teixeira ateixeira@ifrs.org +44 20 7246 6442

This paper has been prepared by staff of the IFRS Foundation. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

Setting the scene

1. The first part of the day will be spent identifying what expectations others have of the IASB in developing an effect analysis, and what the IASB thinks its role should be.
2. One of the challenges for the IASB is developing a methodology that meets the needs of different jurisdictions. Some jurisdictions have statutory obligations for assessing IFRSs, because they become part of the law in that jurisdiction. Sometimes those obligations are of quite a general nature. In other cases the requirements can be more specific. Some jurisdictions appear to treat each new IFRS as if it is a new piece of legislation such that each IFRS should have a complete effect analysis. Other jurisdictions treat new Standards as instruments with a lower burden in terms of cost-benefit analysis, preserving the full effect analysis for the decision to adopt IFRS.
3. In the first session I think it would be helpful to get a better understanding of how the effects of financial reporting standards are assessed in your jurisdiction, including whether there are likely to be changes in those requirements.

The scope of an IASB Effects Analysis

4. There are also debates about the extent to which the IASB should undertake an economic assessment of the effects of its Standards. In simple terms, we need to consider what effects the IASB should convey.
5. The IASB's first Effects Analysis was developed as part of the Business Combinations project. At the time there was a lot of debate about what 'effects' the IASB should be reporting on. We made a decision then that we should set an objective for the effects analysis that reflected the objective for financial reporting. A copy of that effects analysis is included in the reading material for Agenda Paper 3.
6. Our experience with IFRS 3, and subsequently with IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*, led to a new section in the IASB Due Process Handbook. The relevant section, which was publicly exposed for comment in 2012 states:

Effect 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.

Background reading

7. I have provided three main readings for this session:

- (a) EFRAG – UK FRC, *Considering the Effects of Accounting Standards – position paper*

This paper provides a mainly European perspective. You may also find it helpful to read the discussion paper that led to this position paper, which you can find on the EFRAG website at <http://www.efrag.org/Front/p217-2-272/Proactive---Considering-the-Effects-of-Accounting-Standards.aspx>

- (b) Schipper, Katherine *How can we measure the costs and benefits of changes in financial reporting standards?* Accounting and Business Research, Vol. 40. No. 3 2010 International Accounting Policy Forum, pp. 309–327

This paper focuses mainly on costs and benefits. It is not influenced by a particular regulatory regime, but does have more of a US flavour. It is an academic article so, although Schipper is an ex-FASB Board member, does not necessarily reflect a standard-setters view.

- (c) Teixeira, Alan *Effect Analyses*, Standards Advisory Council, February 2010

This is a paper I presented to the Standards Advisory Council (now the IFRS Advisory Council).

8. You may also find it helpful to read the examples of effect analyses that we have presented on projects (see Agenda Paper 3). These examples demonstrate how our thinking and the types of analysis have developed over time.

9. In addition, Claes Norberg has sent through to me some information about impact assessment requirements in Sweden. I have included these documents in the posting.

Session goals

10. The objective of this session is for group members to have formed a view of the main issues they expect an IASB effects analysis to address—or what questions it should attempt to answer. This leads into the next session which focuses on how we answer those questions and who should undertake the analysis.