

# AGENDA PAPER

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TOPIC *Effects analysis in standard-setting*

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## Effects analysis

1. The attached presentation summarises discussion of the Effects Analysis Consultative Group (EACG) so far and provides background for the discussion during the break-out session. We are not asking the Advisory Council to consider all the issues discussed by the EACG and have instead identified a few high-level issues on which we would like to receive Advisory Council input. These are described as follows:

### ***Purpose of the effects analysis***

2. Many parties are interested in the effects of a new or proposed accounting Standard. Their needs with respect to Effects Analysis are different; for example:
  - (a) The IASB needs to decide whether the benefits of proposals being considered exceed the costs and, in doing so, the IASB compares the various alternatives and decides whether to add a project to an agenda or issue an Exposure Draft or a Standard.
  - (b) Investors and analysts need to understand how the financial reports are likely to change as a result of new or proposed requirements, and how those changes will help them with their economic decision-making. They also need to assess what changes they need to make to their systems for analysis.

- (c) Preparers need to understand what changes they will need to make compared to their existing reporting practice and how those changes will affect the way they communicate in financial reports. They also need to assess the costs and time needed for their implementation.
- (d) Regulators and other users need to assess the consistency and comparability of new or proposed requirements as well as their wider economic impact.
- (e) Local standard-setters need to understand how the proposals would affect their jurisdiction.
- (f) Auditors need to ensure new or proposed requirements are auditable.
- (g) Endorsement bodies need to conduct regulatory impact assessments.
- (h) Effects are also relevant where general purpose financial reports are used as a basis for taxation and in reporting for contract (eg bank covenants).

**Questions to the Advisory Council: purpose of effects analysis**

Q1. The IASB Effects Analyses focuses on the needs of those users identified in the Conceptual Framework. Do the Advisory Council members agree with this approach?

Q2. The IASB already maintains a dialogue with some of the relevant parties, such as international regulators, to help them with their assessment of impact of changes. Should the IASB establish more formal mechanisms for helping with this process, whether as a part of the Effects Analysis or separately?

### **Scope of effects analysis**

3. The IASB *Due Process Handbook* specifies the following effects to be considered in effects analysis:
  - (a) Effects on financial statements
  - (b) Effects on comparability
  - (c) Effects on costs to users and preparers

(d) Effects on economic-decision making.

**Questions to the Advisory Council: scope of effects analysis**

Q3. Some have asked the IASB to also consider economic effects, and wider macroeconomic effects, such as impacts on stability. Should the IASB have a role in assessing these effects, either through Effects Analysis or through increased consultation with parties concerned with this assessment?

Q4. Standard-setters have a role to play in the understanding of effects in their jurisdictions. The IASB relies on local standard-setters to identify and explain features in their jurisdiction that could affect the international comparability of a proposed Standard or make some aspects of the Standard more significant for the jurisdiction. Do you agree with this approach?

***Who should perform the work***

4. One of the tools used in the Effects Analysis is fieldwork. This can include one-to-one visits or interviews, workshops or experiments (field testing). It helps the IASB to assess the impact of financial statements as well as the likely costs of implementation.
5. Usually, the IASB staff conducts the fieldwork. Some view with scepticism the evidence cited 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 its analysis of the costs of implementing the model.
6. The IASB and endorsement bodies are more likely to be able to give greater weight to evidence if they collect it directly. Information gathered by one body, whether it is the IASB or an endorsement body, is likely to be given more weight by the other body if the nature of that interaction is transparent.
7. The IASB works with national 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.

8. The IASB has experienced situations in which the entities participating in fieldwork were unwilling to allow non-IASB personnel to view or access any data generated in the fieldwork, notwithstanding the availability of confidentiality agreements.
9. It is possible that some jurisdictions will not accept analysis undertaken by the IASB unless they also have full access to the evidence and data.

**Questions to the Advisory Council: who should perform the work?**

Q5. Which good governance processes should the IASB consider introducing to manage the perceived risk of bias in Effects Analysis?

Q6. What should the IASB do to reduce duplication of work by other parties who are also interested in analysing the effects?