

International Financial Reporting Standards



Effects Analysis

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Background

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- Costs and benefits are always considered.
- April 2007 – more explicit framework recommended by the Trustees.
- More comprehensive Effects Analyses produced since, but have different style and content.
- February 2010 – SAC recommends developing methodology for Effects Analyses.
- February 2013 – the IFRS Foundation *Due Process Handbook* includes more guidance.
- March 2013 – the Effects Analysis Consultative Group (EACG) formed.



## Objective of EACG

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- Main questions addressed:
  - Are the IASB's processes for considering, and communicating, the likely effects of the new financial reporting requirements meeting the needs of investors, preparers, auditors and securities regulators?
  - Are the needs of those users and the needs of the broader regulatory community aligned? If they are not, what additional information do these regulators need, and what is the IASB's role in helping them get that information?



## Purpose of Effects Analysis

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- Help the IASB to assess the effects of the alternative approaches that it considered.
- Help others to gain a more complete understanding of the assessments made by the IASB.
- A clear framework for the IASB Effects Analysis helps other bodies conducting similar analyses to decide which additional work to undertake.



## Scope

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- Due Process Handbook mentions the following:
  - effects on financial statements;
  - effects on comparability;
  - effects on costs to users and preparers; and
  - effects on economic-decision making.



## Scope – example *Leases 2013 ED* (lessees section)

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- Effects on the quality of financial reporting:
  - relevance and faithful representation;
  - users' needs; and
  - comparability.
- Other potential effects:
  - behavioural changes and structuring;
  - cost of borrowing;
  - regulatory capital requirements and bank covenants.
- Effects on financial statements including key ratios;
- Effects on compliance costs to preparers; and
- Effects on costs of analysis for users.



## Scope issues

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- Economic and behavioural effects:
  - these are considered only to ensure that accounting volatility is underpinned by economic volatility.
- Use of financial reports for other purposes:
  - for example, regulation, bank contracts, tax and others.
  - the IASB has regular communication with, for example, prudential supervisors.

### EACG possible recommendations

- Formal mechanism of communication with other relevant international bodies to help them understand the effects
- National standard-setters responsible for communication with local bodies
- Formal demonstration of IASB's efforts in this area



## Scope issues – continued

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- Additional regulatory needs:
  - for example, regulatory impact assessment for endorsement.
- Macro-economic implications:
  - regulators need to assess the wider economic impact, such as employment and capital investment.
  - some argue that IFRS can impact financial stability.

### EACG possible recommendation

- National standard-setters to liaise with local bodies to help them understand effects in their jurisdictions

### EACG possible recommendation

- IASB to explain any concerns raised by the Financial Stability Board



- Relevant to the IASB:
  - proportionality
  - relevant to the stage of the project:
    - Agenda Consultation – no effects considered;
    - Discussion Paper – effects of status quo as well as potential solutions;
    - Exposure Draft – more detailed assessment of potential changes;
    - Final Standard – analysis of effects is most important; and
    - Post-implementation Review – test assessment.

### EACG possible recommendation

- Emphasise that an Effects Analysis should reflect the stage of the project



- Representational faithfulness:
  - Evidence of an overstatement of costs (for example study on transition costs in Canada).
- Sources of evidence:
  - Public information including comment letters, round tables, meetings of expert consultative groups;
  - Fieldwork and ‘what-if’ analysis;
  - Surveys, descriptive statistics and academic studies.
- Weighing evidence:
  - Data integrity;
  - Global assessment; and
  - Sharing data.



