

ADMIN PAPER

IFRS Foundation Trustees' meeting - Due Process Oversight Committee

FRANKFURT 15 – 17 October 2013

**Agenda
paper**

3D

TOPIC *Effects analysis in standard-setting*

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Background

1. The Effects Analysis Consultative Group (EACG) was formed in response to a recommendation of the Trustees:

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.

2. The purpose of this paper is to update the DPOC on progress of the EACG.

EACG

3. The group has met twice. Agenda Paper 3D(i) is an early draft of the report of the EACG. The draft is not included in the publicly available papers for the DPOC meeting because it has been prepared for discussion by the EACG at its meeting in November 2013.
4. At that meeting the EACG will discuss the main recommendations and how the members will express their views—the members of the EACG are not able to commit the organisations they work for to the specific recommendations in the report. It will be up to each organisation to decide how it wishes to receive or respond to the report.
5. Although the purpose of the EACG as set out in the recommendation from the Trustees seems relatively innocuous, developing an agreed methodology requires agreement on

the purpose and outcomes of effects analysis. That has proven to be challenging. The other fundamental issue relates to the transparency of the work being undertaken.

Purpose of an effects analysis

6. Many parties are interested in the effects of a new or proposed accounting Standard. Their needs with respect to effects analysis are not always aligned. For example, the IASB's assessment of new financial reporting proposals focuses on the primary users of financial statements and the goal of improving transparency of financial reporting.
7. IFRS financial information is used by others—prudential regulators in assessing banks, taxation authorities in determining assessable income and lenders as part of contractual monitoring arrangements. Some commentators also believe that the IASB should consider financial stability when it sets financial reporting requirements.
8. The report attempts to reconcile these views. However, in its current form, the report says that the primary purpose of an effects analysis is to assess the likely effects of proposed new requirements in the light of the purpose of financial reporting as set out in the Constitution and Conceptual Framework. The report acknowledges that the IASB does not operate in a vacuum, noting, in particular, that financial stability is important. The EACG is assessing what level of responsibility the IASB should have to inform and liaise with appropriate international bodies that are responsible for financial stability.
9. The EACG is also assessing the role national standard-setters should play in this process.

Transparency

10. One of the tools used in the effects analysis is fieldwork. There is a wide range of activities that fits under this umbrella. Fieldwork can include one-to-one visits or interviews, workshops or experiments (field testing). Fieldwork can be very detailed and intensive and, because of its in-depth nature, insightful.
11. The IASB conducts a lot of fieldwork in its projects. Unfortunately, some view with scepticism the evidence cited by the IASB as a result of some fieldwork, because the

IASB is not always able to make the names of the participants or the detailed work available for others to review. In a recent example the IASB undertook work with banks and corporates to assess the likely effect of the proposed credit impairment model on loan loss provisions. Some of the participating organisations spent over 500 hours on this work, but did so on condition that we do not identify them. In all cases the detailed calculations and assessments have been kept confidential. They could contain price-sensitive information. The IASB would not have been able to conduct the tests without these conditions being in place.

12. Some jurisdictions that undertake regulatory assessments are only able to use information that they have collected or seen directly. Sometimes we are able to accommodate this by having staff from the appropriate organisation in the jurisdiction participate in the testing with IASB staff. Unfortunately, this is not always possible. In the case of the impairment field work the participating banks and corporates would not permit anyone outside of the project team to view the data.
13. 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.

Communication

14. It also became clear in the first meeting of the EACG that, despite the IASB operating in a very open and transparent manner, regulators who are required to assess financial reporting standards are not able to access (find) the information they need easily. If anything, the IASB provides too much information.
15. I think one of the likely recommendations will be that the IASB publish a separate summary of the likely effects of a new IFRS at the same time as the Standard is released. The progress we have made to incorporate an assessment of effects within the Basis for Conclusions that accompany a Standard will continue. We have no plans to take that analysis out of the Basis. The need for a separate report reflects the fact that the main

audience for the Basis for Conclusions different to the parties assessing likely effects for regulatory purposes.

Summary

16. At the meeting of the DPOC I am happy to answer any questions about the work of the EACG.
17. The IFRS Advisory Council is discussing the issues I have identified above at its meeting on 14 and 15 October. I will provide a verbal update of the main feedback we receive.
18. I will also relay to the EACG any feedback or comments DPOC members have on the direction the report and thinking is taking.