

## International Financial Reporting Standards



# Effects Analysis

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This presentation reflects the views of the presenter and do not purport to represent the views of the IASB or individual members of the IASB.

- The most recent Strategy Review by the Trustees of the IFRS Foundation asked the IASB to set up a comprehensive body to support the IASB in implementing (or further embedding) effects analyses within the IASB's due process.
- In 2013 the Effects Analysis Consultative Group (EACG) was formed.
- Their work was discussed with the Advisory Council in October 2013.
- The Effects Analysis Consultative Group has met several times since and the plan is to finalise the report in July 2014.
- The session today is primarily informational, but Advisory Council members will have an opportunity to convey their views on the messages here.

# Tentative conclusions

# Preamble

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- Assessing and explaining the likely effects of a new financial reporting requirement is part of good standard-setting.
- The IASB will be proposing to change how entities report information, or what information needs to be disclosed.
- The IASB should explain why any change is necessary, rather than keeping with the status quo and, if a change is considered by the IASB to be necessary, why the particular change proposed is better than other options.

- Focus of the analysis
  - The focus of the IASB’s review of the likely effects of a potential change in financial reporting requirements should reflect the objectives of general purpose financial reporting, which relate primarily to improving the transparency of financial information about an entity.
- Effects
  - Direct (first-order)
    - Financial statements
    - Direct costs
  - Economic and other consequences (second-order)
    - Quality of the information
    - How it will improve decision making
    - There may be capital allocation transfers
    - Behaviour may change, or be affected

# Financial Reporting does not live in isolation

- Financial Stability
  - Financial stability is widely acknowledged as being important to a well-functioning global economy. As a member of the Financial Stability Board (FSB) the IASB supports the mandate of the FSB. The IASB focuses primarily on ensuring that investors have high quality, transparent and comparable information (general purpose financial reports) about individual entities. The FSB focuses primarily on financial stability of financial markets as a whole.
  - These objectives are complementary. High quality general purpose financial reports can support financial stability.
  - General purpose financial reports often form the basis for numbers reported in regulatory filings for prudential supervisory purposes. Accordingly, the recognition and measurement principles in IFRS can affect how information is reported in regulatory filings used for financial stability purposes.
  - Without compromising its own objectives, the IASB should continue to engage with the FSB to make the FSB aware of proposed changes to financial reporting to help the FSB achieve its objectives.

# Financial Reporting does not live in isolation – continued

- Explicit and implicit references to IFRS in contracts and regulation
  - General purpose financial reports are used for purposes other than making decisions about providing resources to the entity, including measuring taxation obligations, the amounts available for distribution as dividends, statistical purposes and regulation (such as determining return on asset constraints).
  - The IASB relies on other accounting standard-setters to inform, as they see fit, parties that rely on general purpose financial reporting for these other purposes. It is important that the IASB maintains strong and open communication links with other accounting standard-setters.
- The needs of other accounting standard-setters
  - Some other accounting standard-setters have additional responsibilities within their local jurisdiction. It is the responsibility of those other accounting standard-setters, and not the IASB, to meet those additional requirements.
  - Although it is not the responsibility of the IASB to include in its assessment of effects matters that are specific to a jurisdiction, the IASB should work co-operatively with local standard-setters so that it could plan its fieldwork and outreach in ways that help those local jurisdictions meet their needs.

- Proportionality and relevance
  - The IASB should plan its fieldwork that is proportionate to the changes in financial reporting being proposed.
  - The type, and depth, of fieldwork undertaken should also reflect the stage of development of the project.
- Global assessment
  - The IASB has a responsibility to give full and fair consideration to the perspectives of those affected by IFRS globally, and its fieldwork should reflect this responsibility.



# Sources of evidence

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- Comment letters
- Fieldwork
  - Simulations
  - Requirements testing
  - Surveys
  - Case studies
  - Data analysis
  - Consultative Groups
- Respect the data and its limitations
  - Integrity
  - Generalisable

- Ongoing – fieldwork analysis and results
  - In line with the general principles of reporting as transparently as possible while respecting requests for confidentiality, the IASB should report the nature of fieldwork and outreach it has undertaken, including who has participated in the fieldwork, and the evidence it has collected as clearly and openly as possible.
  - When the IASB cannot disclose the identities of individual participants in fieldwork the IASB should provide sufficient information for outside parties to be able to understand the profile of fieldwork participants.

- Reporting the likely effects
  - As the IASB develops, and exposes for public comment, a possible change to an IFRS it should set out what it thinks are the likely effects of that proposed change. The level of detail and analysis of the likely effects of a proposed change in financial reporting expected to be provided by the IASB will reflect the stage of the proposals
  - Discussion Paper
    - In the research stage an analysis of the perceived deficiency being addressed and the possible solutions are an integral part of the discussion or research paper.
  - Exposure Draft
    - At the Exposure Draft stage the Basis for Conclusions should set out why the IASB is proposing a particular change to financial reporting requirements, including referring to the evidence it has collected or the outreach it has undertaken.
  - IFRS
    - When an IFRS is changed the IASB would normally prepare a separate Effects Analysis Report. This summary report would not be a substitute for explaining the likely effects of a Standard within the Basis for Conclusions. A purposed document that summarises the likely effects and how the IASB made the assessments can, however, help those with a particular interest in this work.

- Report content
  - Clear specification of the financial reporting problem.
  - Why that problem needs fixing.
  - Why the IASB chose to fix it in a particular way.
  - Why the new requirements will improve financial reporting, having considered:
    - The likely changes to financial reports (direct effects)
    - The likely consequences of the new requirements (second-order effects)
  - Why the IASB concluded that it is a cost-beneficial solution.

Next steps

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- Review by the IASB
- Presentation to the Trustees (July 2014)
- Release of the report
- Implementation
  - Toolkit
    - We are creating an internal toolkit to help staff plan and carry out their assessments
      - Planning
      - Doing the right sort of analysis
      - Reporting the analysis
  - Communication
    - Website improvements

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