Effects Analysis

Introduction

1. The purpose of this paper is to:

   a. remind the DPOC of the recommendations of the Effects Analysis Consultative Group ('the EACG') that was published in November 2014[1]; and

   b. provide an update to the DPOC on implementation of the recommendations.

2. The paper is primarily for information, but any questions and/or comments from Committee members would be welcome.

Recommendations of the EACG

3. The International Accounting Standards Board ('the Board') needs to be satisfied that it has considered the likely effects that are relevant to a particular proposed Standard and has collected sufficient information, and undertaken sufficient analysis, to be confident in its assessment. Doing so in an open and transparent manner will help other parties affected by the work of the Board to understand the decisions and trade-offs made by the Board and will increase confidence in the standard-setting process.

4. In light of the above, the EACG made a number of recommendations in its November 2014 report. These recommendations are not intended to be prescriptive in nature but, rather, are principle-based. The EACG expects that the Board will weigh different factors according to the nature of the project and the sources of evidence available to it.

[1] The report of the Effects Analysis Consultative Group can be accessed at: http://www.ifrs.org/About-us/IASB/Advisory-bodies/Working-groups/Effects-Analysis-Consultative-Group/Documents/Effects%20Analysis%20Consultative%20Group_Report_November%202014.pdf.

5. Appendix A summarises the recommendations of the EACG.

Update on implementation of the recommendations

6. As the DPOC is aware, an effects analysis was prepared and approved by the Board in respect of IFRS 16 *Leases*. That effects analysis was comprehensive and is available on the website[2]. It was the first effects analysis to be issued with a final Standard that seeks specifically to incorporate the recommendations of the EACG.

7. The technical staff are currently finalising the effects analysis for the forthcoming insurance contracts Standard. This effects analysis is similarly comprehensive in nature. It is anticipated that a paper on this effects analysis will be tabled at a future meeting of the DPOC.

8. IFRS 9 Financial Instruments was published prior to the publication of the EACG recommendations so reflects earlier approaches to effects analysis. The Basis for Conclusions in IFRS 9 sets out the options that the Board considered in developing the expected loss impairment model and the way that effects were assessed (IFRS 9 BC5.52-5.286). This assessment focussed primarily on qualitative issues.

9. It is difficult to provide a more detailed assessment of the quantitative effects of IFRS 9 and in particular the expected loss impairment model before implementation because these will depend on the particular asset portfolios of banks, the differing lending practices in each bank and the economic outlook at the time that IFRS 9 is implemented. The effect of the expected credit loss model is also highly dependent on information that is only available following systems changes. This difficulty has not only been encountered by the IASB – for example this was also noted by EFRAG in their endorsement advice for IFRS 9.

10. The technical staff continue to refine the approach to preparing effects analyses and will continue to report progress to the DPOC at future meetings.

[2] The IFRS 16 effects analysis can be accessed at: http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/IFRS_16_effects_analysis.pdf.

Appendix A

Recommendations of the EACG

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The focus of the Board's assessment should be on how a proposed financial reporting change is likely to affect that objective. The Board is not required to assess possible broader economic consequences because these are beyond its objective. Changes to IFRS Standards are expected to lead to better decisions by investors relying on these reports. Changes to reporting requirements can also cause preparers to bear costs in complying with IFRS Standards and users of the financial reports to bear costs to absorb and process the new information. The Board should assess and explain how general purpose financial reports are likely to change because of the new requirements, and why those changes will improve the quality of general purpose financial reports. The Board should also explain why it considers those changes to be justifiable, by demonstrating how it assessed the likely effects on the direct costs to preparers of meeting the new requirements and the related costs to users.
The mandate of the Financial Stability Board ('the FSB') is to promote the stability of financial markets as a whole. The Board focuses on ensuring that investors have high quality, transparent and comparable information general purpose financial reports about individual entities. To help the FSB achieve its objectives, the Board should, without compromising its own objectives, continue to engage with the FSB to ensure that the FSB is aware of proposed changes to financial reporting and has sufficient time to assess and address how changed financial reporting information should be incorporated into their monitoring systems.
The objective of general purpose financial reports prepared using IFRS Standards is to provide financial information relevant to those making decisions about providing resources to the entity. The Board recognises that other parties use general purpose financial statements for their own objectives—including determining taxable income, determining distributable reserves, statistical purposes and regulation. It is not the responsibility of the Board to tailor financial reporting to meet the needs of these other parties. The Board recognises, however, that it has an obligation to allow these other parties to observe changes to financial reporting that could have implications for their activities. It is important that the Board maintains strong and open communication links with other

accounting standard‑setters for this purpose.
Other accounting standard-setters may have responsibilities within their local jurisdiction regarding assessment of effects of a change in accounting standards. It is not the responsibility of the Board to meet those requirements. However, the Board should work co-operatively with local standard-setters so, where possible, it can plan its fieldwork and outreach in ways that are mutually beneficial for the Board and those local jurisdictions.
The Board should plan its fieldwork so that it is proportionate to the changes in financial reporting being proposed. Pervasive and significant changes generally warrant a more comprehensive assessment programme than is needed for narrow-scope changes. The type, and depth, of fieldwork undertaken should also reflect the stage of development of the project. At the finalisation of a Standard, the Board is explaining the basis for its decisions and what it expects to be the effects of the changes to financial reporting requirements. Accordingly, the fieldwork and analysis should explain how the Board has made its final decisions.
The Board has a responsibility to give full and fair consideration to the perspectives of those affected by IFRS Standards globally. The Board should aim to undertake consultation that is geographically broad-based so that its Standards are written with principles that can be applied globally. Other accounting standard‑setters can help by providing the Board with analysis and information about effects in their jurisdiction generally as well as about factors that might be unique to their jurisdiction. However, the Board must make its assessment from a global perspective and not make its decisions because of how the new requirements could affect a particular jurisdiction. There might be circumstances in which the net benefits of a new requirement are negligible (or event create a net burden) for entities within in a particular jurisdiction. The Board's assessment needs to be whether new financial reporting requirements are justifiable on a global basis.
The Board should consider ways to increase the involvement of other accounting standard-setters in undertaking fieldwork locally and sharing the results with the Board.
The Board should make available information about the nature of fieldwork and outreach it has undertaken. The Board should take steps to ensure that fieldwork tools such as surveys and case

studies are easily accessible on the project website. Such information should also include identifying as clearly and openly as possible, while respecting requests for confidentiality, who has participated in the fieldwork and the evidence that has been collected. This information should be made available throughout the development of the project. When it is not possible for the Board to disclose the identities of individual participants in fieldwork, the Board should provide as much information as it is able to for outside parties to be able to understand the profile of fieldwork participants.
The format of the analysis of the likely effects of a proposed change in financial reporting should reflect the stage of the proposals. When a new Standard is issued, the Board should generally prepare a separate Effects Analysis Report. A tightly-focused document that summarises the likely effects and how the Board made the assessments can help those with a particular interest in this work. Any such report should be included with the package of documents balloted by the Board.