

Considering the Effects of Accounting Standards
FEEDBACK STATEMENT



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The paper is issued by the European Financial Reporting Advisory Group (EFRAG), and the UK Accounting Standards Board (the ASB). **Final views are formulated and expressed at this stage of the due process.**

The purpose of this feedback statement is to provide an overview of key messages from the respondents to the Discussion Paper 'Considering the Effects of Accounting Standards' and set out the final positions reached by the European Financial Reporting Advisory Group (EFRAG) and the UK Accounting Standards Board (the ASB). EFRAG and the ASB have issued a position paper which sets out separately these final positions adopted by EFRAG and the ASB. International collaboration with the accounting standard setters, regulators and others has been recognised as key to addressing the significant issues identified. The broad range of respondents and comprehensive comments received demonstrate the importance of, and interest in, this initiative.

Why EFRAG and the ASB undertook the initiative

As financial reporting has evolved to meet the changing needs of users, the objective of the standard setter to improve financial reporting outcomes should remain intact. The issue of whether accounting standard setters should take account of the effects, or consequences, of the standards they develop has been a subject of debate for decades, although without satisfactory resolution. The main principle set out in this paper is that the standard setters should integrate (or further embed) into their due process, a methodology for considering the effects of accounting standards.

The issue has become even more prominent in the recent years, with public policy makers around the world increasingly challenging the lack of evidence-based accounting policy making. A key tenet of such an evidence-based standard setting due process should be to gather evidence and test proposals for a new accounting standard or amendment prior to implementation, and that the standard setter should subsequently assess the effectiveness of the proposals after implementation. The aim of integrating (or further embedding) such 'effect analysis' into the standard setting due process is to strengthen the process and enhance its transparency, to increase the accountability and credibility of the standard setter, and thus reinforce the objectives of the standard setter.

In the aftermath of the financial crisis, the role of accounting standard setters has been the focus of considerable attention. In April 2007, the Trustees of the then International Accounting Standards Committee Foundation (IASCF) included in their *'Due Process Handbook for the IASB'*, as approved by the Trustees in October 2008, the requirement for an analysis of the anticipated effects of a new IFRS or a major amendment. This has been followed up in the report of the Trustees' Strategy Review 2011 *'IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade'*, published in February 2012. This report stated that although field tests and effect analyses are now considered best practice in the establishment of regulations, the IASB should further clarify the role of effect analysis in the IASB's due process. Consequently, the establishment of an international working group is suggested so that an agreed methodology for field testing and effect analyses is developed. This paper is an important step in helping National Standard Setters and the IASB to face the challenge of better understanding the concept of effect analysis in the standard setting due process, so that the procedures developed are clear among stakeholders and contribute to improved financial reporting.

Proactive Work in Europe

EFRAG aims to influence future standard setting developments by engaging with European constituents and providing timely and effective input to early phases of the IASB's work. This proactive work is done in partnership with National Standard Setters in Europe to ensure resources are used efficiently and to promote stronger coordination at the European level.

There are four strategic aims that underpin proactive work:

- Engaging with European constituents to ensure we understand their issues and how financial reporting affects them;
- Influencing the development of global financial reporting standards;
- Providing thought leadership in developing the principles and practices that underpin financial reporting; and
- Promoting solutions that improve the quality of information, are practical, and enhance transparency and accountability.

More detailed information about our proactive work and current projects is available on EFRAG's website (www.efrag.org).

Table of contents

INTRODUCTION	6
LEVEL OF RESPONSE TO THE DP	7
IASB DUE PROCESS	10
SUMMARY OF MAIN ISSUES RAISED BY RESPONDENTS	11
FEEDBACK RECEIVED IN THE PUBLIC CONFERENCE (BRUSSELS, MAY 2011)	14
FEEDBACK RECEIVED IN THE MEETING WITH THE GERMAN CRUF (FRANKFURT, MAY 2011)	15
ANALYSIS OF THE COMMENT LETTERS RECEIVED TO THE DP	16
SECTION 1: The process of effect analysis	16
SECTION 2: The definition and scope of effects	26
SECTION 3: Key principles	39
SECTION 4: Practicalities of performing effect analysis	42
SECTION 5: Next steps	45
APPENDIX: LIST OF RESPONDENTS	47

Purpose and summary of the feedback statement

Introduction

- 1 In January 2011 EFRAG and the Accounting Standard Board (ASB) issued a Discussion Paper ‘Considering the Effects of Accounting Standards’ (DP) for public consultation with the comment period closing on 31 August. The proposals called on standard setters to improve their due process from start to finish by considering the effects of accounting standards. The proposals aimed to strengthen that process and enhance its transparency, to increase the accountability and credibility of the standard setter and thus to contribute positively to delivering improved financial reporting.
- 2 The DP was published as part of the European proactive agenda for stimulating the global accounting debate. The intention was to encourage discussion of the issues set out in the DP and to use feedback from the consultation process to assess support for the proposals and to consider next steps.
- 3 In May 2011, to support the issuance of the DP and further stimulate debate, EFRAG, the ASB and the European Commission organised an event in Brussels to discuss the content of the DP. Other meetings were also held including a meeting with members of the German Corporate Reporting Users’ Forum (CRUF) to receive feedback of the proposals from the representatives of users. The key themes raised in both events are discussed later in that Feedback Statement.

Level of response to the DP

- 4 EFRAG and the ASB received 31 comment letters to the DP (including 17 comment letters from European constituents).
- 5 The comment letters received came mainly from accounting bodies, National Standard Setters and business associations. However, some comment letters were received also from individual companies, academics and individuals.

	Europe								The Rest of the World					Global	Total	
	DK	FR	IE	IT	NL	NO	UK	EU	AU	BR	CA	JP	SG	US		
Accounting bodies			1					2	2						3	8
Standard setters	1	1		1	1	1					1	1	1			8
Preparers and business associations							2	2	1							5
Accounting firms								1							2	3
Academics							1	1								2
Others								2		1				2		5
Total	1	1	1	1	1	1	3	8	3	1	1	1	1	2	5	31

- 6 The list of all respondents is presented in the appendix at the end of this Feedback Statement.
- 7 Most of the respondents welcomed the DP as an introduction to an important debate. They felt that the process of effect analysis should be further developed and embedded in the due process.
- 8 Overall support for the project was expressed in 15 comment letters (AFME, Deloitte, AcSB, EFAA, IFAC, KPMG, DASB, ASC, G100, ICAEW, BP, ACCA, FSR, OIC and FEE).
- 9 The comment letters of CAI and academics M. Cameran, D. Campa and A. Pettinicch, were supportive to the most of views presented in the DP.

- 10 Six respondents (ANC, ESMA, ASBJ, ICAA, IPA and BusinessEurope), did not express their overall support for the proposals of the DP. However, they noted that the issue of the assessment of the effects of accounting standards is important and the debate is needed.
- 11 PWC, NRS, a group of ten academics representing the EAA and Ms. D. Juvenal did not present any clear view on whether they support the project. They were concerned about several aspects of the DP. Their comments are described in more detail below.
- 12 Mr D.N. Savini opposed the proposals in the DP. He believed that a separate process of effect analysis is not needed as constituents have the possibility of raising all issues alongside the standard setting due process. He argued that the standard setter should not be engaged in the assessment of effects as it is beyond its area of expertise, creates an unnecessary administrative burden and could lead to politicisation of the standard setting process.
- 13 Mr E.W. Trott believed that an accounting standard setter should focus only on one effect, namely whether the accounting standards would ultimately reduce the portion of the cost of capital related to the 'information deficiency premium', and that the effects on the behaviour of different market participants should be considered by governments and regulators and not by the standard setter.

Views of particular groups of respondents

- 14 The respondents were much divided in their comments on the specific proposals of the DP. The different groups of respondents (National Standard Setters, accounting bodies, academics, preparers and business associations) did not present a common or similar view in most of cases. Therefore, the detailed analysis of the comment letters presented later in this Feedback Statement does not refer to the view of a particular group. The overall feedback received from the particular groups of respondents is summarised below.

Accounting bodies

- 15 Accounting bodies were in general supportive of the proposals of the DP. They were also more favourable to including macro-economic effects in the analysis.

National Standard Setters

- 16 National Standard Setters were more concerned with the scope of the effect analysis. They outlined difficulties of scoping-in the macro-economic effects and stressed the need for proportionality in the effect analysis. They felt that the reference to an objective of 'serving the public interest by contributing positively to delivering improved financial reporting' included in the definition of 'effects' should be further aligned with the objective of financial reporting included in the Conceptual Framework.

Accounting firms

- 17 Accounting firms were of the opinion that the DP was too detailed in its proposals on the application of the process and that some of the proposals seemed to be too bureaucratic. They suggested that the DP should have only concentrated on providing a general outline and setting out objectives for the process.

Business associations and individual preparers

- 18 Business associations and preparers highlighted the need for better analysis of the effects of the accounting standards. They favoured including the cost-benefits analysis in the consideration of the effects. They felt that some of the proposals of the DP might not be operational and might be difficult to implement in practice.

Academics

- 19 The academics that developed the EAA response presented a view that the scope of effects should not be a part of the definition of effects. They suggested that the DP should further elaborate on the proposed methodology for the assessment of the effects. They also highlighted the role that academics and researchers could play in gathering evidence and performing the analysis.

IASB due process

- 20 Six respondents (ASC, KPMG, ASBJ, G100, FEE and FSR) noted that effect analysis has already, to some extent, been incorporated in the IASB due process, but agreed that the process should be further developed and enhanced.
- 21 EFRAG and the ASB acknowledge that the IASB has recently implemented some of the proposals of the DP by having published in July and September 2011 the effect analyses of the new standards: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. EFRAG and the ASB acknowledge that this publication was a further step in making the IASB process of considering the effects of accounting standards more transparent.

Summary of main issues raised by respondents

Scope of effects to be considered

- 22 The DP proposed that, in the effect analysis of the accounting standard, both macro-economic effects and micro-economic effects should be considered.
- 23 However, many respondents were particularly concerned about the scope of the effects that should be taken into consideration. Some respondents believed that the macro-economic effects should not be taken into account, while others agreed that they should be considered, but they stressed the difficulties with considering such effects. They suggested that further consideration should be given on how, and the extent to which, those effects should be taken into account.
- 24 The respondents raised the following concerns:
 - (a) The IASB and National Standard Setters might not have the resources and knowledge necessary to assess macro-economic effects;
 - (b) The macro-economic effects are difficult to identify and measure;
 - (c) The analysis of the macro-economic effects would be subject to judgment and might be influenced by political factors;
 - (d) Macro-economic effects are outside of the remit of the IASB and broader than the objective of improved financial reporting.

Reference to an objective in the definition of 'effects'

- 25 The DP proposed to define 'effects' as 'consequences that flow, or are likely to flow, from the accounting standard referenced against an objective of serving the public interests by contributing positively to delivering improved financial reporting'.
- 26 Many of the respondents which commented on the definition of effects were concerned by the reference against an objective of 'serving the public interest'.
- 27 Some believed that it might be difficult to assess whether a particular outcome is successful in serving the public interest, because its impact can vary between different interest groups.
- 28 Several standard setters suggested that the wording of the definition should be further aligned with the objective of financial reporting as defined in the Conceptual Framework.
- 29 Other respondents argued that the objective should not be a part of the definition but it should be considered while defining the scope of effects to be considered.

■ ■ ■ Practicability of the process of effect analysis

- 30 The DP proposed that the effects should be considered throughout the whole standard setting process and that the formal effect analysis should be published at the following points in time in the standard setting due process: the agenda setting stage, when discussion paper and exposure draft are published, when a final standard is issued and as a result of post-implementation review. In addition, the DP suggested a set of key principles underpinning effect analysis and considered practicalities of performing effect analysis including validating outcomes, identifying and assessing effects, identifying options and choosing the preferred option.
- 31 Many respondents raised concerns about the practicality of the proposed process of effect analysis and perceived the requirements as too detailed. They questioned whether the process as outlined in the DP could be applied in practice.
- 32 Several respondents thought that the process of the effect analysis as proposed in the DP is too bureaucratic and could potentially result in a significant resource burden on the standard setter that could as - a consequence - result in delays in standard setting due process.
- 33 The respondents stressed the importance of proportionality in the effect analysis and suggested that a more flexible approach should be considered. They questioned whether it is necessary to publish five separate documents containing the effect analysis for every amendment of a standard.
- 34 Many respondents suggested that the practical details of effect analysis should be set up at a later date, after some experience of doing effect analysis has been gained.
- 35 Several respondents believed the DP did not provide enough guidance on how to identify and measure the effects.

Differentiating of effect analysis at consequent stages of the standard setting due process

- 36 The DP proposed that the effect analysis should be performed at different stages of a standard setting due process, including post-implementation reviews. Furthermore, the DP explained that during the post-implementation reviews the actual effects should be considered.
- 37 Some respondents suggested that the DP should differentiate more between different sorts of effects studies to be performed at the subsequent stages of the due process. In particular they noted a distinction between effect analysis conducted before the issuance of final standard (ex-ante analysis) and post-implementation reviews (ex-post analysis).
- 38 Several respondents suggested that post-implementation reviews should be under an independent oversight, for example in the case of the IASB the Trustees' Due Process Oversight Committee to avoid the risk of self-review. The role of the oversight body would be to ensure credibility and independence of the effect analysis and to monitor compliance with the requirements to carry out the effect analysis at different stages of a due process. Some respondents suggested that post-implementation reviews should be performed by a body independent of the standard setter.
- 39 The above areas of concern are discussed in more detail in this Feedback Statement.

Feedback received in the public conference

(Brussels, May 2011)



- 40 On 16 May 2011, EFRAG, the ASB and the European Commission organised an event in Brussels to discuss the content of the DP. Overall, the participants welcomed the initiative to improve the process of accounting standard setting by a systematic process of evaluation of their effects and appreciated the issuance of the DP as a contribution to the debate.
- 41 Participants raised the issue on which effects should be considered and stressed the difficulty in accounting for all global macro-economic effects. One participant believed that the DP would benefit from defining macro-economic effects.
- 42 Some participants expressed their concerns that, if there was a conflict between different stakeholders, it might be difficult to assess which effect should be given the priority.
- 43 The audience generally shared the opinion that the IASB should retain the overall responsibility for the consideration and assessment of effects in the process of setting of a new standard. However, they agreed that other parties (for example National Standard Setters, researchers, other organisations) could also be involved in gathering the evidence and conducting the effect studies in different stages of the due process.
- 44 Many participants stressed the need to conduct a detailed analysis of issues at the agenda setting stage to assess the importance of an issue, the anticipated outcome of the project and whether the new accounting treatment would be operationally feasible.



Feedback received in the meeting with the German CRUF (Frankfurt, May 2011)

- 45 In general, the German CRUF welcomed the DP and the concepts put forward by EFRAG and the ASB. They provided some comments to the proposals of the DP and suggestions for the next steps.
- 46 In relation to the DP, some German CRUF members believed that the definition of macro-economic effects should be reconsidered and limit the effects to those which are in the standard setter's remit. They also felt that the DP goes too much into detail of the process of effect analysis and that the ideas presented in the DP should be synthesized. They also suggested that the audience of the DP should be clearly defined.
- 47 In addition, the members proposed that at the agenda setting stage it would be useful for the standard setter to consult with relevant users on whether there is a need to proceed with the project.
- 48 Furthermore, they thought that the proposals for the 'post-implementation reviews' should be further developed in respect to timelines and looking for evidence of emerging issues.
- 49 In relation to the next steps of the project, German CRUF members suggested that some case studies should be provided which would demonstrate the impacts of accounting standards. They supported the proposals of the DP for field-testing based on an IASB project. In addition, they suggested review of impact studies already published regarding the Sarbanes-Oxley Act.

Analysis of the comment letters received to the DP

SECTION 1: THE PROCESS OF EFFECT ANALYSIS

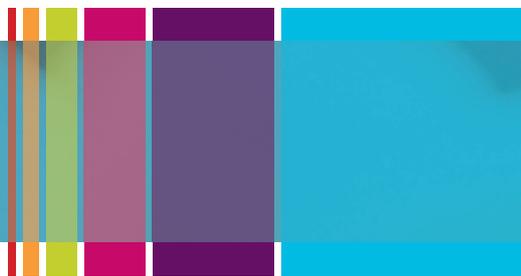
Question 1: Definition of 'effect analysis'

Proposal

- 50 The DP suggested that 'effect analysis' should be defined, for the purposes of accounting standard setting, as 'a systematic process for considering the effects of accounting standards as those standards are developed and implemented' (paragraph 2.2).
- 51 A majority of the respondents agreed with the definition of 'effect analysis' as proposed in the DP. They noted that the definition included post-implementation effect analysis.

Alternative views and suggestions:

- 52 Four respondents had the following proposals to improve the definition:
- (a) DASB thought that the definition should focus more on the outcome rather than the process. They proposed an alternative definition: 'a systematic process for considering the effects of accounting standards and including the conclusions of such considerations as those standards are developed and implemented to ensure that those standards do not result in unintended consequences' or '... to ensure that the final standard will continue to meet the intended effects as defined in the related objective for those standards'.
 - (b) BP suggested that the definition of 'effect analysis' should be made clearer and merged with the definition of effects.
 - (c) EAA thought that the definition should be made shorter and clearer by removing the word 'systematic' and restricting the concept of effect analysis to a point-in-time analysis. They proposed the following definition: 'effect analysis is an approach that provides evidence about the effects of accounting standards'.
 - (d) Deloitte suggested that the definition should recognise that the purpose of such an analysis is to permit the standard setter to understand the effects of financial reporting standards from the point of view of users, preparers, auditors, securities market regulators and prudential supervisors. They further proposed that the definition should also recognise that 'effects' include the effects on particular areas most impacted by a particular proposal (including recognition, measurement, presentation and disclosure of financial statement items).



- 53 Three respondents (ASBJ, ANC and Mr D.N.Savini) thought that it was not necessary to define effect analysis, for the following reasons:
- (a) ANC commented that different terms for assessment of effects have been used on different occasions and believed that the terminology used is of no importance. They thought that it is the authentic policy for assessing the accounting standards that really matters.
 - (b) Mr. D.N. Savini commented that there is no need to define 'effect analysis' if a standard setter follows adequate due process procedures.
 - (c) ASBJ believed that it would be more useful to define 'effect analysis on developments of or revisions to financial reporting standards'. The proposed the following definition: 'a process to identify and evaluate the anticipated or actual effects from the development of or revisions to financial reporting of accounting standards as those standards are developed and implemented'.



Question 2:

Further integration of effect analysis in the standard setting due process

Proposal

- 54 The DP proposed that effect analysis should be integrated (or further embedded) into the standard setting due process, in order to strengthen that process, enhance its transparency, and increase the accountability and credibility of the standard setter (paragraph 2.7 and 2.8).
- 55 Most respondents generally agreed with the need for further integration and enhancement of effect analysis in the standard setting due process.
- 56 Many respondents highlighted the need for considering the effects of accounting standards at an early stage of the due process (agenda proposal) and the importance of post implementation reviews.

Alternative views and suggestions:

- 57 Five respondents (ICAA, Deloitte, AFME, G100, DASB) stressed that the process should be made flexible, not too bureaucratic and that the depth of analysis should be proportionate to the importance of the effects of the new standard or amendment in order not to hinder progress in the development of accounting standards.
- 58 Two respondents Mr D.N.Savini and Ms D.Juvenal argued that the proposed process is unnecessary as duplicative with already existing due process procedures.

Questions 3: Responsibility for performing effect analysis

Proposal

- 59 The DP proposed that the standard setter should be responsible for performing effect analysis, and that the performance of effect analysis by any other body would not be a sufficient or satisfactory substitute (paragraph 2.11).
- 60 The majority of respondents agreed that the ultimate responsibility for considering the effects of accounting standards should rest with the IASB, however the IASB may assign a part of the analysis to other bodies (for example National Standard Setters, international organisations, academic researchers, etc.) whilst retaining full overall control for any such delegated analysis.

Alternative views and suggestions

- 61 Five respondents (DASB, KPMG, FEE, OIC and FSR) presented the view that independent oversight is needed over the process, in particularly for the post-implementation reviews. They provided the following suggestions:
- (a) DASB noted that independent oversight is especially relevant in situations when the standard setter, based on the outcome of the effect analysis, takes a decision whether the project should be continued. They thought that the IFRS Foundation and Monitoring Board should consider whether the oversight function could be achieved within the existing IASB governance structure.
 - (b) FRS suggested that the Trustees' Due Process Oversight Committee should constantly monitor the process of effect analysis. KPMG and FEE thought that the oversight of the Trustees' Due Process Oversight Committee would be particularly important in post-implementation review.
 - (c) OIC noted that a presence of reviewers that did not participate in the development of the original standard could be useful in the case of post-implementation review.
- 62 Eight respondents (ASBJ, AcSB, ANC, Deloitte, BusinessEurope, EAA, ACCA, Mr D.N. Savini) suggested that an independent body should be involved in the process of effect analysis. They thought that it would make the process more objective and enhance credibility. ACCA, ACSB, Deloitte and EAA stressed that it would be especially important for post-implementation reviews. Specific comments included:
- (a) ANC thought that the assessment of effects can be carried out by any stakeholder and that the summary of assessments made by different stakeholders should be carried out independently from the IASB.

- (b) ASBJ suggested that a third-party committee consisting of senior individuals who have detailed knowledge and expertise in financial markets could conduct the analysis.
 - (c) Businesseurope believed that the IASB has currently neither the skills and knowledge of practical application nor, more importantly, the essential independence to carry out effect analysis satisfactorily. They argued that performance of effect analysis by the IASB would be a significant breach in the ‘checks and balances’.
- 63 The EAA felt that a significant omission from the DP is any detailed consideration of the available methodologies for carrying out any objective assessment of the effects of accounting standards and any consideration of the possible role of academic researchers. In part B of their comment letter, they have provided a detailed discussion on why and how academic research can assist in the evaluating the effects of accounting standards.

Question 4: Frequency and timing of effect analysis

Proposal

- 64 The DP proposed that effects should be considered throughout the life-cycle of a project to introduce a new accounting standard or amendment, but that publication of a document setting out the key elements of the effect analysis should be specifically required, as a minimum, at the following points in time in that life-cycle (paragraph 2.15):
- (a) When an agenda proposal on the project is considered by the standard setter;
 - (b) When a discussion paper is issued for public consultation (this effect analysis is an update to a previous analysis, to reflect the latest information available);
 - (c) When an exposure draft is issued for public consultation (this effect analysis is an update to a previous analysis to reflect the latest information available);
 - (d) When a final standard or amendment is issued (this effect analysis is an update to a previous analysis to reflect the latest information available); and
 - (e) For new accounting standards and major amendments, a ‘post-implementation review’ is required, which is an analysis of ‘actual effects’ that should be performed and published when the pronouncement has been applied for at least 2 years, together with the publication of an associated document setting out the key elements of the review; a post-implementation review is not required for minor amendments.

- 65 There were divergent views on whether the effect analysis should be conducted and published at each of the five points in the standard setting due process (agenda proposal, discussion paper, exposure draft, final standard and post-implementation review). Almost half of the respondents agreed with the proposals, while others believed that this requirement is too demanding and not necessary.
- 66 The respondents being in favour of the proposals believed, for example, that the work devoted to developing and updating a proper effect analysis will help to focus the project appropriately and should result in a shorter overall time to develop a new IFRS (AcSB).
- 67 OIC even suggested that the documents issued setting out the key elements of the effect analysis or post-implementation review should receive the formal approval of the IASB. They argued that the formal involvement of the Board would be the best guarantee of the adequacy of the analysis performed by the standard setter.
- 68 Many respondents highlighted the need for the effect analysis being performed at the agenda setting stage, and for post-implementation reviews.

Alternative views and suggestions

- 69 Seven respondents (ICAA, G100, BP, FEE, Deloitte, IPA and PwC) believed that the preparation of a formal document setting out an effect analysis should not be required at five points in the life cycle of all amendments to standards. They believed that it would impose a significant burden on the standard setter and slow down the process of standard setting. They suggested that a more flexible approach should be taken by allowing the standard setter to limit the scope of the effect analysis to the more straightforward and less controversial changes.
- 70 ESMA and PwC suggested that it might be better to incorporate effect analysis into documents that are already required by the standard setting due process (for example discussion papers, exposure drafts) rather than issuing them as formal stand-alone studies.
- 71 The ACCA argued that the DP should make a distinction between various types of effect analysis, and should put more emphasis on their different features. It suggested dividing effect analysis into the following three categories:
- A. Evidence of the problem to be addressed (to justify the agenda decision and be the introduction to a discussion paper);
 - B. Assessment of the implications of the solution proposed (in support of the proposals put forward in the ED and updated for the standard); and
 - C. Assessment of how well the solution has worked – a post implementation review (PIR).

- 72 Also other respondents noted that the content of effect analysis would be different in in different stages (KPMG and academics: M. Cameran, D. Campa, A. Pettinicchio).
- 73 The following paragraphs constitute the analysis of comments provided by some respondents on whether and to what extend effect studies should be conducted at each stage of the due process.

Agenda proposal stage

- 74 Ten respondents believed it to be very important to perform effect analysis as early as possible in the standard setting process. Effect analysis should be able to identify reasons for the change (for example shortcomings in the existing standards), the expected impacts on stakeholders, and should be able to demonstrate that the benefits will be significant enough to justify the agenda decision for undertaking a new project. They noted that it would also help to set priorities in the allocation of resources.
- 75 KPMG, Deloitte, CAI and EAA believed that only high-level assessment of effects is feasible at the agenda proposal stage of the due process; however they supported an effect analysis at that stage.
- 76 In contrast, NRS thought that the performance of effect analysis at a very early stage might not be useful and that it should be left to a standard setter to decide whether effect analysis should be undertaken at that point in time.

Discussion paper stage

- 77 Eight respondents believed that an effect analysis should be published at the discussion paper stage (ideally as a part of the discussion paper) as a justification for a project and in order to gather stakeholders views on the effects identified so far.
- 78 Contrastingly, NRS thought that performing an effect analysis at the discussion paper stage might not be very useful and could lead to extensive work for the standard setter. However, they believed that the comment letters in response to the discussion paper would give useful insights for further analysis conducted by the standard setter.

Exposure Draft stage

- 79 Six respondents argued that the publication of such an effect analysis would be needed at the exposure draft stage in order to get stakeholder views on the effects identified. According to academics (M. Cameran, D. Campa, A. Pettinicchio), the standard setter should, based on the effect analysis at the exposure draft stage, be able to demonstrate that the negative effects for the implementation are significantly lower than the positive effects for the overall economy.

Final standard stage

- 80 Five respondents provided specific comments on the need for effect analysis at the publication of final standard stage and agreed that the publication of effect analysis should accompany the final standard.
- 81 G100, ACCA, FEE envisaged that the effect analysis at the final standard stage could be issued as an update of the effect analysis conducted and published before.

Post-implementation review

- 82 13 respondents commented that the post-implementation review is necessary, for example in order to consider whether the intended consequences are attained and to consider any unintended consequences.
- 83 KPMG and FEE noted that the post-implementation review may also give rise to new agenda proposals.
- 84 ANC thought that post-implementation reviews might be restricted to only the most important and controversial standards, and that the assessment could be carried out by any stakeholder. G100 also presented a view that post implementation reviews should be performed only for new standards and major amendments.

Question 5: Proportionality in performing effect analysis

Proposal

- 85 The DP proposed that effect analysis should be undertaken for all new accounting standards or amendments, but that the depth of the analysis work should be proportionate to the scale of the effects (in terms of their 'likelihood' of occurring and the magnitude of the 'consequences' if they do occur), the sensitivity of the proposals and the time available (paragraph 2.19).
- 86 The majority of respondents agreed with the view presented in the DP that effect analysis should be undertaken for all new standards or amendments but that the depth of the analysis work should be proportionate to the scale of the effects.

Alternative views and suggestions

- 87 DASB, Businesseurope, FEE and CAI commented that time available should not play an important role in constraining effect analysis.

- 88 The ICAEW noted that some relatively minor amendment may have a wide field of potential effects and that in such cases all effects should be taken into account, including unintended ones.
- 89 ANC and PwC thought that effect analysis did not need to be conducted for minor amendments to standards.
- 90 Deloitte suggested that a holistic approach should be adopted which would not result in layers of bureaucratic process and box-ticking.
- 91 G100 believed that investors' input to effect analysis is paramount to assess whether the proposed change to a standard would be necessary.

Final recommendations of EFRAG and the ASB for questions 1-5

- 92 EFRAG and the ASB believe that 'effect analysis', for standard setting purposes, should be defined as 'a process for considering the effects of accounting standards'. EFRAG and the ASB have considered that the majority of the respondents agreed with the definition of 'effect analysis' noting that they also agreed it should include analysis of post-implementation effects. EFRAG and the ASB heeded the advice of some constituents to keep the definition clear, short and broad as the scope of effects should be separately defined. Suggestions to remove the word 'systematic' were taken on board so that the process of effect analysis was not too rigid and allowed for some flexibility within the process to adjust to changes made in the standard.
- 93 EFRAG and the ASB affirm their view that effect analysis should be further embedded in the standard setting due process. This would serve to strengthen and add transparency to the process and enhance the accountability and credibility of standard setters. EFRAG and the ASB noted strong support for their proposal of a continuous process of effect analysis over the life-cycle of projects dealing with the development of a new accounting standard (or amendments to existing standards) and in their subsequent implementation. Specifically, the process should start from the agenda proposal stage up to post-implementation reviews and not merely be considered as a single event at a specific point in time. EFRAG and the ASB acknowledge that some standard setters, such as the IASB, have already begun to incorporate effect analysis into its due process and to implement some of the proposals set out in the Discussion Paper.
- 94 EFRAG and the ASB also note the strong support for their proposal that effect analysis should follow the principle of proportionality in terms of the degree of analysis work undertaken – that is, it should be adjusted to the scale of the anticipated (or intended) effects. It is important that the process should be flexible and not overly bureaucratic.

- 95 In EFRAG's and the ASB's opinion, during the standard setting due process the ultimate responsibility for considering the effects of accounting standards should remain with the standard setter. However, other relevant bodies, independent from the standard setter (for example National Standard Setters, international organisations, researchers and academics) should be engaged in the process as they may have additional resources and technical expertise in performing specific studies to contribute to the effect analysis. EFRAG and the ASB gave particular attention to the comments that an external independent body should be responsible for conducting the process of effect analysis since this would improve objectivity and credibility. However, in EFRAG's and the ASB's view entrusting part of the standard setting due process to an independent body would conflict with the notion that effects studies should be integrated into the standard setting process and most importantly risk undermining the independence of the standard setter in its technical responsibility of defining financial reporting requirements. It may also be detrimental to the efficiency of the standard setting process.
- 96 Constituents made strong points that oversight of the effect analysis process should be kept independent, especially considering that the standard setter, based on the outcome of the effect analysis may have to take a decision as to whether the project should be continued. EFRAG and the ASB were also convinced by arguments that the oversight of the effect analysis process should be achieved within the existing governance structure during the standard setting due process which should be sufficient in ensuring that the standard setter maintains a reliable and effective internal quality control mechanism. For example, in the case of IASB the constituents supported that oversight would be best placed with the Trustees of the IFRS Foundation. EFRAG and the ASB were not convinced on the other hand with the proposals to have an external body being entrusted with the oversight function, because it may again interfere with the standard setter's independence.
- 97 EFRAG and the ASB believe that good governance demands that the standard setting process should be transparent. Improving the transparency of the process would complement internal quality controls, so that the constituents would be able to assess which evidence has been gathered and how the effects have been considered. Whilst EFRAG and the ASB appreciate that it is important to respect the confidentiality of the participants in an effect analysis process, in particular field-tests and outreach activities, it is essential that the overall findings should be made available to constituents. This improved transparency is likely to enhance the value of effect analysis by encouraging parties whose views are not represented to contribute to the process. EFRAG and the ASB note that the transparency of standard setter's due processes have been improved (for example the IASB's), but there is still not sufficient information provided by standard setters about the outcome of effect analysis in the public domain.
- 98 As already mentioned above, effects analyses should be integrated, as far as possible, in the standard setting due process (discussion papers, exposure drafts, final standards) and considered continuously over the life-cycle of a project to introduce a new accounting standard or major amendment. A summary of the key elements of effect analysis should be

made publicly available at specified points in time in that life cycle. Those points in time should be determined so as to be consistent with the standard setter's due process, and should be communicated. EFRAG and the ASB received divergent views on whether the effect analysis should be conducted and made available to the public at each of the five points in the standard setting due process, namely the agenda proposal, discussion paper, exposure draft, final standard and post-implementation review. EFRAG and the ASB agree with the views expressed by some constituents that applying this at all five stages may impose a significant burden and may hinder the standard setting due process, despite adjusting the amount of work at each stage. Moreover, it is recognised that effect analysis is still evolving and there are a myriad of variables impacting the effects of standards. It is also inevitable that the standard setter will be faced with reconciling contradictory inputs as effects do not fall uniformly.

99 EFRAG and the ASB acknowledge that the effect analysis will vary with different stages of the standard setting due process, allowing the standard setter to justify, by providing evidence, the problem to be addressed, the implications of the solution proposed and the assessment of whether the proposal has been working out as a whole.

100 More specifically:

- (a) During the agenda proposal and discussion paper stages, the effect analysis is expected to be more high level, aiming to provide evidence both of the problem to be addressed, to make the agenda decision explicit, and of the implications (or effects) of the solution proposed;
- (b) Subsequently, at the exposure draft and the final standard stages, the standard setter should re-assess the anticipated (or intended) effects of the proposals and consider all input/ feedback received from the constituents relating to the effects of the proposals; and
- (c) During the post-implementation stage, an analysis of actual effects should be performed, assessing the extent to which the proposals met the objective of the standard.

101 Consequently, EFRAG and the ASB propose that the effect analysis should be made publicly available during the standard setting process, not just at the end when a standard is finalised. It should remain at the standard setter's discretion as to the form in which the effect analysis are made publicly available. The standard setter should also ensure the effect analysis is made publicly available before finalising the corresponding stages to safeguard that all communicated effects are considered.

102 EFRAG and the ASB note that the effect analysis being made public at subsequent stages may in practice be an update to the previous analysis undertaken, to reflect the latest information available.

SECTION 2: THE DEFINITION AND SCOPE OF EFFECTS

Questions 6 and 10: Definition of 'effects'

Proposal

103 The DP proposed that 'effects' should be defined, for the purposes of accounting standard setting, as 'consequences that flow, or are likely to flow, from an accounting standard, referenced against the objective of serving the public interest by contributing positively to delivering improved financial reporting' (paragraph 3.2).

104 Most respondents, although supportive of the first part of the definition, expressed some reservations to the reference to the objective of 'serving the public interests by contributing positively to delivering improved financial reporting'.

105 Five respondents (KPMG, CAI, FEE, Deloitte and academics: M. Cameran, D. Campa, A. Pettinicchio) agreed, overall, with the definition of 'effects' proposed in the DP.

Reference to the proposed objective - arguments in support

106 Nine respondents (KPMG, CAI, FEE, Deloitte, ACCA, ANC, POIC and EFAA and academics M. Cameran, D. Campa, A. Pettinicchio) supported the reference in the definition to the objective of 'serving the public interest by contributing positively to delivering improved financial reporting'.

107 They believed that the term 'public interest' is appropriate as financial reporting has broadened out to serve the interest of a wide range of users including government, the public, employees, creditors, as well as existing and potential investors. However, CAI and Deloitte stressed that primacy should be given to the impact on investors in the assessment of effects.

108 EFAA argued that the definition should further highlight the importance of delivering improved financial reporting, and suggested that the definition should read: 'consequences that flow or are likely to flow from an accounting standard, referenced against the objective of delivering improved financial reporting in the public interest'.

Reference to the proposed objective - alternative views

- 109 Seven respondents (DASB, ASC, NRS, ICAA, AcSB, G100 and BP) argued that the definition, and in particular the reference to an objective, should be aligned with the wording of the Conceptual Framework or IAFS Foundation Constitution. Therefore, they suggested that effects should be referenced against the objective of providing 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.
- 110 Similarly, AFME, PwC and Ms. Juvenal believed that ‘serving the public interest’ or ‘considering the well-being community at a large’ is too wide, potentially too subjective and that the definition should therefore be confined to ‘the interests of investors’. However, PwC acknowledged that it is in public interests to have well-functioning capital markets and a comprehensive set of financial accounting standards that underpin those markets.
- 111 Five respondents (ASBJ, ICAEW, BP, EAA and Mr N.D. Savini) argued that effects should not be defined by reference to any particular objective. They provided the following arguments:
- (a) ASBJ believed that the reference – in the definition of ‘effects’ - to an objective could potentially narrow the scope of effect analysis and that the standard setter should consider all input received from constituents.
 - (b) EAA believed that an objective should not be a part of the definition of effects, but that the objective of effect analysis should be taken into account at a subsequent stage in determining what action needs to be taken in response to the identified effect.
 - (c) The ICAEW thought that the assessment of whether or not a particular outcome is successful in serving the public interest may be difficult, judgmental and could vary between different interest groups.

Other suggestions in relation to the definition of ‘effects’:

- 112 DASB suggested that the definition should more explicitly refer to the fact that both positive and negative consequences should be considered as effects.
- 113 FEE commented that the current definition could be interpreted as meaning that as long as a positive contribution is made to improving financial reporting, the public interest consideration is met by default. They were not convinced that this is sufficient to justify action, for instance where the costs are disproportionate.
- 114 ASBJ suggested that effects should be defined in the context of developments of, or revisions to, financial reporting standards.

Question 7: Comparing the term 'effects' to the term 'costs and benefits'

Proposal

115 The DP proposed that the term 'effects', rather than the term 'costs and benefits', should be used to refer to the consequences of accounting standards, due to the fact that some of 'effects' of accounting standards cannot be easily quantified (paragraph 3.7).

116 The majority of respondents (KPMG, NRS, ICAA, CAI, ASBJ, AcSB, G100, ICAEW, BP, ESMA, Deloitte, AFME, FSR, academics: M. Cameran, D. Campa, A. Pettinicchio, IPA, Ms. D. Juvenal and Mr N.D. Savini) agreed that the term 'effects' is more appropriate than 'costs and benefits' while analysing the consequences of accounting standards. The following supporting arguments were raised among others:

- (a) Only quantitative assessment would limit the scope of the effects to be considered (AcSB, BP, ICAEW, Deloitte);
- (b) In setting accounting standards qualitative factors are significant (G100, FSR);
- (c) Quantification of effects may be a subject to significant uncertainty and the results could be misleading (ICAEW); and
- (d) It is more difficult to measure benefits than costs, hence the cost-benefit analysis would be favorable for preparers (ESMA, IPA).

Alternative views and suggestions

117 Seven respondents (DASB, BT, EFFA, ACCA, FEE, Businesseurope, and EAA) argued, that cost-benefit analysis should not be entirely left out, and that in some situations it might be appropriate to perform it, especially for evaluating costs. The ACCA, EAA and Businesseurope believed that quantification should be attempted whenever possible.

118 FSR suggested that the costs of issuing numerous amendments to the standards (including minor amendments like annual improvements) at very short time intervals should be measured or at least estimated.

Question 8: The scope of the effects to be considered

Proposal

119 The DP proposed that the scope of ‘effects’ to be considered, for the purposes of performing effect analysis, should include all effects, both ‘micro-economic effects’ and ‘macro-economic effects’ (paragraph 3.12). The DP listed the main arguments in favour of including the macro-economic effects (paragraph 3.15):

- (a) Standard setters work in the public interest, and many act within an existing policy framework. This would suggest that standard setters therefore have an accountability and transparency obligation to demonstrate that their activities are contributing positively to delivering improved financial reporting. However, it is difficult to see how standard setters can demonstrate this without assessing the consequences of their activities, and it would not be helpful for them to consider some effects and not others in forming their assessment;
- (b) Accounting standards are expected to have economic effects; better economic decision-making as a result of an accounting standard is a macro-economic effect;
- (c) Considering all the effects might help to ensure that the decisions are not potentially influenced by political considerations.

120 Respondents were divided in their views on the scope of effects which should be considered during the standard setting process.

Macro-economic effects to be scoped in

121 Eight respondents, (KPMG, ICAA, EFAA, CAI, G100, FEE, OIC and academics: M. Cameran, D. Campa, A. Pettinicchio) agreed that both micro-economic and macro-economic effects should be considered. This view was predominant among accounting bodies.

Macro-economic effects should be considered to only to some extent

122 Eight respondents (DASB, ASC, NRS, ABSJ, AcSB, ICAEW, PwC and BP) presented an opinion that macro-economic effects should be considered by the standard setter only to some extent, and they highlighted difficulties related to the assessment of macro-economic effects.

123 DASB, ABSJ and PwC argued that it would be very difficult to identify and assess all macro-economic effects, given the skills and knowledge of the standard setter.

124 ASC noted that such a broad scope could lead to the delays in the standard setting process.

Marco-economic effects should be scoped-out

- 125 Five respondents (NRS, Deloitte, AFME, EAA and Mr D.N. Savini) believed that the macro-economic effects should not be taken into account by a standard setter. They argued that the standard setter should mainly concentrate on the effects associated with the objective of improved financial reporting.
- 126 They provided the following arguments:
- (a) The IASB does not have enough resources or technical expertise to assess the macro-economic effects;
 - (b) It is not in the IASB's remit to consider macro-economic effects;
 - (c) The macro-economic effects could be difficult to identify and measure and could lead to a high degree of subjectivity, which could be detrimental to the standard setting due process.
- 127 However, AFME stressed that constituents should be allowed to provide comments on all effects, including macro-economic effects.
- 128 EAA thought that an accounting standard setter should, in developing an accounting standard, take into account those effects which are relevant to their objectives and remit, which means that the IASB should take into account the effects that a proposed standard may have on the decisions made by providers of capital and the costs of implementation to reporting entities and users of financial statements. EAA considered that social and economic consequences of an accounting standard should better be considered by parliaments.

Other suggestions:

- 129 ANC, ESMA and EAA suggested different approaches to the scope of the effects to be considered by a standard setter. Their proposals are provided below.
- 130 ANC was of the opinion that the scope of the 'effects' should include an assessment of the intrinsic quality of the standard from the point of view of its internal consistency and suitability for its immediate environment, and assessment of the external effects of the standard including the effects on the economic environment (identification of the need to develop or change the standard, simulation of the effects of the standard on accounts, identification of the possible effects on the behavior of economic agents, appraisal of the effects evidenced at entity level, in a cumulative way on the business sector or market).

- 131 ESMA believed that it would be better to classify the effects into primary economic effects on investors and preparers, secondary economic and behavioural effects on preparers, investors and other stakeholders, and tertiary economic and behaviour effects on markets and society as a whole. ESMA supported effect analysis for economic and behavioural effects on preparers, investors and other stakeholders, but they doubted whether the economic effects on markets and society as a whole should be included. ESMA also highlighted that the enforceability of the standard should be considered as a part of effect analysis, because the proposals might not bring the intended effects, if it is not possible to enforce them.
- 132 EAA has provided a more detailed categorisation of effects by dividing them into four groups: A. Effects on providers of capital B. Effects on reporting entities C. Other micro effects D. Macro effects. The proposal of the EAA is reproduced below.

Table 1: Possible Taxonomy of Effects

- A Effects on providers of capital (positive or negative)
- (i) Benefits to analysts and other users in terms of reduced information costs and improved decisions because of improved accounting, including greater transparency. Some of these benefits to the users may be passed on to preparers as reduced cost of capital. Like other items here, the effects could be negative instead of positive.
 - (ii) Initial direct costs to investors and creditors in understanding a change in the reporting requirements applicable to an entity and in implementing that change in financial analysis tools.
 - (iii) Changes in continuing costs to investors and creditors in terms of understanding a change and implementing that change in financial analysis tools.
- B Effects on reporting entities (positive or negative)
- (i) Initial direct costs to the reporting entity of changing to a new requirement.
 - (ii) Continuing costs in terms of preparation, audit, publication (these could be negative if a new standard is cheaper).
 - (iii) Costs caused because competitors gain information (proprietary costs – but see D(iii) below) or because attention is drawn to the entity (political costs).

- (iv) Benefits (or costs) to the individual entity in terms of reduced (or increased) cost of capital caused by improved financial reporting.
- (v) Other benefits to the entity from increased transparency (for example negative political costs).
- (vi) Benefits to the entity from an improved contracting environment arising from standards that make opportunistic behaviour by management less likely, partly arising from their foreknowledge of what will be reported.
- (vii) Better or worse decisions by the entity's management, for example because of changes in understandings of its pension or lease liabilities.
- (viii) Any increase or decrease in a reporting entity's (or other entity's) tax bills.
- (ix) Effects on contractual arrangements, for example loan covenants.

C Other micro effects

- (i) Economic effects on other stakeholders, for example employees, suppliers or customers. For example, a pension accounting standard might lead to a change in pension plans or their availability.
- (ii) Economic effects on other outsiders, for example the leasing industry might suffer if all leases had to be capitalised.

D Macro effects

- (i) Stability (systemic) effects. Accounting changes can cause concerted behaviour among economic agents that can lead to instability (for example any effects of accounting on the solvency of banks or the stability of the financial system). A change that increases the expected value of economic production may nevertheless reduce its total value if the change increases the risk of instability.
- (ii) The success or otherwise of whole economies, for example improved allocation of capital resulting from better financial reporting, or improved contracting possibilities leading to reduction in agency costs (also a benefit to individual entities – B(vi)).
- (iii) Effects on factor markets, for example use of information by competitors may increase competition, stimulate production, lower prices and increase economic welfare by reducing monopoly profits.

Question 9: Communication with the relevant regulator or government body

Proposal

133 The DP suggested that a standard setter can only be expected to respond to an effect which is outside of its remit (or for which an accounting standard is not the most effective means of addressing the particular effect) by communicating with the relevant regulator or government body to notify them of the relevant issue and by obtaining confirmation from them that they will respond appropriately to it (paragraph 3.17).

134 Most of the respondents agreed that the standard setter should inform the relevant regulator or government body for possible effects of the accounting standards that are outside the remit of the standard setter.

Alternative views and suggestions

135 Eight respondents (DASB, KPMG, ASBJ, AcSB, G100, ICAEW, Deloitte and AFME) argued that the standard setter cannot be required to obtain the confirmation from the regulator or government body that they will respond appropriately to the effect communicated. The following arguments were provided:

- (a) It is outside the remit of a standard setter (DASB, G100, Deloitte, AFME);
- (b) It would not be practical on a global basis (KPMG);
- (c) It is not clear what would be the consequence if the response were delayed or inappropriate (DASB);
- (d) It is highly unlikely that the relevant regulator would confirm that it would respond appropriately to the effect (ASBJ); and
- (e) It could delay the standard setting process (AcSB).

136 Five respondents (NRS, CAI, ACCA, Ms. D. Juvenal and Mr. D.N. Savini) disagreed with the proposal that the standard setter should be required to notify the relevant regulator or government body of the relevant issue. They argued that it would not be feasible for a global standard setter to inform all regulators worldwide about all the issues that could arrive in different jurisdictions and that the regulators should be responsible for the relevant issues concerning their remits.

Question 10: Reference to an objective

137 For analysis of the comments made in relation to Question 10, please refer to Question 6.

Question 11: Clarifying the term ‘effects’

Proposal

138 The DP proposed that:

- (a) Effects can be ‘positive’, ‘negative’ or ‘neutral’, as determined by whether they support, frustrate or have no impact on the achievement of the objective of serving the public interest by contributing positively to delivering improved financial reporting (paragraph 3.23);
- (b) Effect analysis will usually involve assessing the ‘marginal effects’ of an accounting standard or amendment, relative to the status quo that existed before its introduction, so the term ‘effects’ should, in general, be interpreted to refer to ‘marginal effects’ (paragraph 3.24);
- (c) The term ‘effects’ can be used to refer to both ‘one-off effects’ and ‘ongoing effects’ (paragraph 3.26); and
- (d) The term ‘effects’ can be used to refer to both ‘anticipated effects’ and ‘actual effects’, depending on what stage the effect analysis is at - before, during or after implementation of the new accounting standard or amendment (paragraph 3.28).

139 Ten respondents agreed with the proposed clarification of the term ‘effects’.

Alternative views and suggestions

- 140 ASBJ thought that three levels of categorisation might be too simple and not adequate for achieving the benchmarking exercise and proposed five categories: ‘very positive’, ‘positive’, ‘neutral’, ‘negative’ and ‘very negative’.
- 141 G100 and The Actuarial Profession noted that identified effects should include the impact of proposed changes on other accounting standards or other requirements. The Actuarial Profession added that it is important for accounting standard setters to look at the effect of creating or maintaining differences in accounting treatment between the accounting standards applied in different areas but to similar assets, liabilities or transactions.

- 142 BP noted that not only direct effects but also effects of effects should be considered. They provided an example of such effects in the case when an amended standard requires additional liabilities to be taken on the balance sheet. That could result in change of rating for a company and in consequence have an impact on the cost and availability of financing.
- 143 The ICAEW, EAA, and academics M. Cameran, D. Campa, A. Pettinicchio were concerned about the wording of point (a) which could be interpreted as meaning that as long as a positive contribution is made to improving financial reporting, the public interest consideration is by default met. They argued that the costs of implementation should also be considered.
- 144 Businesseurope believed that the DP needs further development in this area, and suggested that it should be explained how the assessment of effects should be performed and that examples on how effects can be observed and measured should be added.
- 145 AFME cautioned against classifying effects into ‘positive’, ‘negative,’ and ‘neutral’ because such a classification would be subjective, and different stakeholders may have different views on the appropriate classification of a particular effect.
- 146 Deloitte believed that this part of the DP is too detailed. The ACCA was of a similar opinion and thought that this categorisation does not need to be included in the due process.

Question 12 Incidence and nature of effects; prioritising effects

Proposal

- 147 The DP proposed that:
- (a) Effect analysis should involve considering effects in terms of both their ‘incidence’ (who is affected) and their ‘nature’ (how they are affected), and that the standard setter should be transparent about whether and why they consider that the effects on one group should receive greater weight, less weight or equal weight to the effects on any other group (paragraph 3.30); and
 - (b) Effect analysis should involve prioritising effects, possibly by ‘ranking’ them in terms of their ‘likelihood’ of occurring and the magnitude of the ‘consequences’ if they do occur (paragraph 3.32).
- 148 Almost all respondents providing comments in this respect agreed that ‘incidence’ and ‘nature’ of effects should be considered by the standard setter and that transparency is needed on which effects get higher or lower weight.

- 149 Four respondents (EFAA, Deloitte, EAA and CAI) stressed the importance of the transparency and disclosure about whether and why the standard setter considers that the effects on one group should receive greater weight, less weight or equal weight to the effects on any other group.
- 150 Eight respondents (ACCA, AFME, academics: M. Cameran, D. Campa, A. Pettinicchio, DASB, KPMG, CAI, AcSB and Deloitte) agreed that there should be some sort of prioritisation of effects.

Alternative views and suggestions

- 151 Five respondents stressed the following difficulties and limitations in the prioritising the effects:
- (a) KPMG believed that, given the complexities involved in considering all effects, ranking will be highly subjective, judgmental and based on qualitative characteristics.
 - (b) Deloitte thought that it is not necessary to identify a specific methodology for ranking effects and that flexibility is required.
 - (c) AcSB cautioned against over-engineering the process and noted that some experience with effect analysis would be needed before determining the most useful way of prioritising effects.
 - (d) CAI suggested the IASB should reconsider this proposal after an initial period of performing effect studies.
 - (e) DASB thought that ranking of effects should be tailored to the specific circumstances, and did not find the table presented in paragraph 3.32 of the DP helpful in that respect. They also commented that 'magnitude' has not been well defined.
- 152 Four respondents (ICAEW, NRS, ASBJ and Ms. D. Juvenal) disagreed with the proposals of the DP in respect of ranking effects, for the following reasons:
- (a) The proposed approach is too mechanistic and over-engineered; a more flexible approach is needed (ICAEW, ASBJ);
 - (b) Prioritising the effects is very challenging and should not be a formal requirement for a standard setter; it should be left for the standard setter to decide whether it is sensible to rank the effects against each other (NRS).

Final recommendations of EFRAG and the ASB for questions 6-12

- 153 EFRAG's and the ASB's position is to define 'effects', for standard setting purposes, as 'consequences that flow, or are likely to flow, from an accounting standard'. EFRAG and the ASB have taken into consideration the comments for separating the objective of effect analysis that is to provide evidence to underpin the standard setting due process, out of the definition of effects since the objective needs to be accounted for to determine what action will be taken with regard to an identified effect.
- 154 EFRAG and the ASB acknowledge that accounting standards will potentially result in both micro-economic and macro-economic effects.
- 155 EFRAG and the ASB note that there were divergent views on the scope of effects. However, they found some of the arguments particularly compelling. Some constituents argued that the process should not go beyond the standard setter's expertise or authority but be specifically tied to improving financial reporting outcomes. In particular, EFRAG and the ASB were convinced by the arguments put forward by some constituents that emphasised that the standard setter should be responsible for considering the effects that are related to its remit – the objective of improved financial reporting. More specifically, the standard setter should identify, analyse and take into account during the standard setting due process the effects that the new accounting standard or amendment is expected to have on investors and reporting entities. The standard setter should hence focus on the intended micro-economic effects of the standard.
- 156 Whilst EFRAG's and the ASB's position is that the focus of effect analysis should be on improving financial reporting, they consider that it is important to stress that the standard setter, should, nevertheless, endeavour to be aware of effects that go beyond the objective of the standard setter, such as macro-economic effects. EFRAG and the ASB believe that the standard setter should make information about expected macro-economic effects publicly available, so that relevant bodies can take action. In some cases, it might also be appropriate for the standard setter to communicate an issue that has been identified directly to a relevant body. The standard setter cannot however be expected to obtain confirmation from a regulator or government body, that they will respond to such an effect appropriately.
- 157 In EFRAG's and the ASB's view, macro-economic effects identified during the standard setting process could affect the decisions of the standard setter without compromising the objective of improved financial reporting. In particular, the standard setter may, where appropriate, take steps to minimise the impact of potential adverse macro-economic effects by selecting among alternatives that result in the same quality of financial reporting outcome. For example, the standard setter might revise the effective date of an accounting standard or amendment in order to allow time for relevant monitoring bodies to react and coordinate appropriately, and for investors to adjust to the changes. Another example would be an amendment to transitional disclosures that assisted the capital markets in understanding the impact of a new accounting standard or amendment.

- 158 EFRAG and the ASB acknowledge, however, the inherent difficulties relating to the consideration of macro-economic effects; in particular, an accounting standard or amendment can have opposing effects on different groups, or more than one directly measurable effect can exist. After careful consideration of constituents' views, EFRAG and the ASB have adopted the position that macro-economic effects, where identified, should be communicated to constituents.
- 159 When addressing the issue of 'incidence' (who is affected), the 'nature' (how they are affected) and prioritisation (which effects get higher or lower weight), the constituents stressed that transparency is needed. EFRAG and the ASB adopted the position that the standardsetter should develop a methodology in conjunction with stakeholders that is capable of being implemented in a flexible way. Flexibility should be assessed on an ongoing basis making adjustments as necessary to ensure that effect analysis does in fact strengthen the standard setting process.

SECTION 3: KEY PRINCIPLES

Questions 13 and 14: The key principles underpinning effect analysis

Proposal

160 The DP proposed the following set of key principles underpinning effect analysis (paragraph 4.2):

Principle 1: Explain intended outcomes;

Principle 2: Encourage input on anticipated effects;

Principle 3: Gather evidence; and

Principle 4: Consider effects throughout the due process.

161 All except two respondents to these questions believed that the key principles underpinning the process are needed. Respondents noted that the key principles would help to clarify the objective and the outline of the process. However, there was a divergence in how respondents perceived the key principles.

Alternative views and suggestions

162 ASBJ, G100 and academics: M. Cameran, D. Campa, A. Pettinicchio, perceived the key principles as a set of key steps. ASBJ suggested that the key steps could include:

‘Step-1: To formulate the entire plan of effect analysis.

Step-2: To explain intended outcomes when agendas are set.

Step-3: To encourage input on anticipated effects when due process documents are issued, by providing specific questions to stakeholders with assistance from National Standard Setters.

Step-4: To document summary of inputs from stakeholders by collating evidence that has been received either directly or through National Standard Setters.

Step-5: To publicise the document and submit it to the IFRS Foundation Trustees or its Due Process Oversight Committee for their review.

Step-6: To seek to measure actual effects during the process of post-implementation reviews.’

- 163 DASB commented that the key principles as drafted do not require conclusions, decisions and actions but only consideration of effects. They suggested that the key principles should also foresee a situation when at some stage of the development of the standard the effects identified would indicate that the project should return to the agenda setting stage and that the original objective should be re-deliberated. Also KPMG believed that the Principle 3 should more explicitly refer to reaching a conclusion based on the evidence gathered.
- 164 ASC recommended defining 'evidence' differently in the different stages of the due process.
- 165 ICAA cautioned against establishing separate consultation processes with constituents, as they have already opportunity to raise any concerns through the standard setting due process.
- 166 AcSB suggested clarifying the principles by clearly indicating that 'throughout due process' includes post-implementation reviews and that the constituents should provide input not only on anticipated effects but also on actual outcomes.
- 167 ESMA agreed that constituents should be encouraged to provide input on the anticipated effects but commented that the evidence should not be biased as it is likely that preparers and auditors have more resources to contribute to this process.
- 168 The ICAEW suggested that instead of four principles it would be better to establish the objective of the effect analysis process. They argued that the principles proposed in the DP are rather generic and seem to represent the conflation of several different strands of the process.
- 169 Also EAA thought that the four principles seem to be more related to practicalities (Section 5 of the DP). EAA would prefer to see some objectives at this point. They have suggested adding a further principle that the effect analysis should be published.
- 170 AFME believed that the principles should not be too rigidly applied and that the 'common sense override' should be used where appropriate. They also suggested adding to the Principle 4 a phrase: 'and demonstrate progress on the analysis at each stage thereof'.
- 171 NRS thought that the principles should be developed at a later stage.
- 172 The ACCA believed that the key principles are not needed as they would not add anything substantial to a new due process document.

Final recommendations of EFRAG and the ASB for questions 13-14

- 173 The Discussion Paper proposed a set of key principles for underpinning effect analysis. Although there was a consensus amongst the constituents that the key steps are vital in order to clarify the objective and outline the process of effect analysis, there was some divergence on how the respondents perceived the key principles. In essence, the key principles were seen by the constituents as a set of key steps that should be clear in terms of their outcome, the actions that would follow and have a visible sequence. Constituents also focused on the importance of the standard setter to consider the effects of accounting standards throughout the standard setting due process, starting from the clarity of the objective at the beginning of the process and following it through all the way to the post-implementation review.
- 174 Accordingly, EFRAG and the ASB believe that the following steps should underpin effect analysis:
- Step 1: Formulate the entire plan of effect analysis, explaining the intended outcomes at the agenda setting stage.
 - Step 2: Encourage input on anticipated effects when due process documents are issued.
 - Step 3: Document summary of inputs from stakeholders by collecting all evidence received and make the document publicly available.
 - Step 4: Measure actual effects during the post-implementation review process.
- 175 EFRAG and the ASB believe that these steps are important in reinforcing the main aims of effect analysis.

SECTION 4: PRACTICALITIES OF PERFORMING EFFECT ANALYSIS

Questions 15-17: Practicalities of performing effect analysis

Proposal

176 The DP in Section 5 developed some proposals in respect of the practicalities of the effect analysis process. It recommended specific steps which should be followed in validating the intended outcomes of a proposed accounting standard or amendment, in identifying and assessing the effects and in identifying options and choosing the preferred option.

177 Only half of the respondents referred in their comment letters to the proposals of the DP in terms of practical sides of the effect analysis process. A minority of respondents agreed explicitly with the proposals of the DP in this respect.

Alternative views and suggestions

178 Several respondents (KPMG, NRS, ASBJ, AcSB) presented a view that it is too early to decide on the practical details of the process. They suggested that it would be better to agree on an outline process (objectives and key principles) and finalise the details at a later date after some experience of performing effect analysis has been gained.

179 Some respondents (KPMG, CAI and Deloitte) believed that the DP should not be so detailed in respect of the process of effect analysis. The ACCA, Deloitte and ICAEW argued that some proposals in the DP concerning this section are over-engineered, over-demanding and could be simplified, in particular in respect to projects with fewer effects.

180 G100 and NRS suggested that the steps should be treated as guidelines rather than requirements. G100 cautioned that applying the processes and actions outlined in Section 5 would consume significant resources on the part of the standard setter and would introduce the risk that the effect analysis will consume more resources than the technical development of a standard. KPMG was of the opinion that ultimately the relevant standard setter should consider how to implement effect analysis in its standard setting due process.

181 The ICAEW noted that, although it is useful to follow a routine series of steps for most of the due process, ultimately a balanced judgment needs to be made on the basis of the particular facts and circumstances. They found it therefore important to ensure that any routine established does not become excessively mechanistic.

182 EAA believed that practical and precise guidance on how effects can and should be identified and assessed is missing in the DP. They suggested that the Section 5 should refer to academic literature and research in that respect.

Final recommendations of EFRAG and the ASB for questions 15-17

- 183 EFRAG and the ASB agreed with the views expressed by the constituents that it is too early to decide on the practical details of the process, before any experience is gained. Therefore, EFRAG and the ASB have decided not to take a position on the practical aspects of implementing an effect analysis process.
- 184 EFRAG and the ASB also agree with the view that it is essential to keep the process simple and ensure that it is implemented to serve the standard setting process and not applied in a mechanistic way to satisfy a due process requirement.

Question 18: Collaboration with National Standard Setters and similar institutions

Proposal

- 185 The DP proposed that the IASB should, to some degree, delegate to National Standard Setters and similar institutions some of the activities involved in gathering evidence of the effects of accounting standards, particularly consultation with constituents, and that these bodies should play a more active part in the due process to ensure that IFRSs contribute positively to delivering improved financial reporting (paragraph 5.5).
- 186 Almost all of respondents agreed that that while maintaining the ultimate responsibility for the process and the final assessment of effects, the individual effect studies can be performed by National Standard Setters or other bodies (for example regulators, universities, think tanks, consultants).
- 187 The reasons supporting this view included:
- National Standard Setters can collect evidence from their constituents and identify effects from their jurisdictions effectively (BT, FEE, KPMG, AcSB, EAA, M. Cameran, D. Campa, A. Pettinicchio),
 - Resource constraints exist for the IASB (ICAA, Deloitte, PwC), and
 - The particular effects can be outside the core area of expertise of the IASB (BP).
- 188 Several respondents stressed that the IASB should, however, co-ordinate the whole process (KPMG, Deloitte, AFME, AcSB). AcSB suggested that the IASB should develop a protocol with each National Standard Setter on what the role and responsibilities of the National Standard Setter are. CAI noted that in case of conflicting results the IASB should, by using its own judgment, give a global view of effect analysis. ASBJ perceived the process as partnering with National Standard Setters rather than ‘delegation of tasks’.

Alternative views and suggestions

- 189 NRS and EAA thought that some National Standard Setters might not have enough resources to collaborate with the IASB in the respect of conducting the effects studies.
- 190 ESMA argued that National Standard Setters should not carry out the effect analysis, because in many jurisdictions National Standard Setters are not driven by investors' needs.
- 191 The ICAEW commented that the DP is unclear on what the extent and the practical implications of such delegation are likely to be.
- 192 EAA suggested that it would be useful for the IASB to cooperate with academic institutions to receive input on national effects.

Final recommendations of EFRAG and the ASB for questions 18

- 193 EFRAG and the ASB believe that some of the activities in gathering evidence for the effects of accounting standards should, where appropriate, be delegated. National Standard Setters and similar bodies should, where appropriate, be actively involved in shaping the process – particularly in the context of effect analysis work carried out by the IASB (although it is noted that not all constituents supported this view).
- 194 EFRAG and the ASB note that some constituents have suggested that the process should be perceived as 'partnering' rather than 'delegating activities', which suggests a spirit of co-operation. They indicated that the standard setter has to maintain the ultimate responsibility for the process and the final assessment of effects, but there was benefit in collecting a diverse evidence base from different jurisdictions and from specialised areas of expertise. The latter will provide further input during the standard setting due process and may assist in the resource constraints that might be faced by the standard setter.
- 195 Consequently, EFRAG's and the ASB's position is that the standard setter should, where appropriate, form partnerships, on a project-by-project basis with National Standard Setters, regulators, universities, think tanks and consultants. These bodies should, where appropriate, be involved during the effect analysis process, in gathering evidence of the effects of accounting standards and in playing an active part in the standard setting due process to ensure that constructive contribution is made towards the standard setter's objective of improved financial reporting. EFRAG and the ASB are of the opinion that relevant procedures should be put in place to define the basis of collaboration, enabling partners to be consistent while relying on each other's work.

SECTION 5: NEXT STEPS

Question 19: Next steps

Proposal

- 196 The DP proposes that, as the next steps, the proposals put forward in the DP should be tested via a 'live' IASB project and that the National Standard Setters and other institutions should be encouraged to share their knowledge and experience in the effect analysis and partner with the ASB and EFRAG staff in taking the proposals forward.

National Standard Setters and other institutions sharing experience

- 197 Ten respondents believed that it would be useful if the standard setters and similar organisations would share their experience in the area of analysing effects of accounting standards.
- 198 IFAC offered to share its knowledge and experience already gained in the assessment of possible effects in its standard setting process.

Field-testing

- 199 12 respondents thought that, as a next step, the proposals should be subject to field testing. They believed that it would allow better visualisation of effect analysis, to assess the strengths and weaknesses of the process as proposed in the DP and eventually lead to modifications and improvements.
- 200 Respondents were divided in their opinions on which of the IASB's projects should be the basis for the field-testing.
- 201 DASB suggested that the project chosen for the field-testing should not be a complex one, as to the conclusions could be reached within one year.
- 202 KPMG thought that the project should be selected at the very early stage.
- 203 However, AcSB argued that it does not need to be a new project, as projects already started would benefit from the effect analysis. They also believed that effect analyses which have not been published for the previous projects could be included in post-implementation reviews of those projects retroactively, based on project files. Also PwC was of the opinion that a sample of effect analysis should be prepared for recently completed or soon-to-be completed projects.
- 204 EAA has concerns about the practicality of field-testing the proposals with a live IASB project, as they thought that, if the whole process was to be field-tested, this could take five years.

Update of the DP

- 205 Eight respondents suggested that the DP should be updated and consequently forwarded to the IASB/ IFRS Foundation for consideration.
- 206 They believed that further work on the project, particularly the field-testing, should be conducted either under the leadership of the IASB or in close cooperation with the IASB.
- 207 KPMG believed that the updated DP should not be too detailed as far as the process is concerned and should focus on objectives and broad principles. They argued that it should be up to the standard setter to decide how to implement the effect analysis in the standard setting due process.
- 208 EAA suggested the DP should be updated and forwarded to the IASB before the upcoming post-implementation reviews are undertaken. They believed that it would be much harder to influence the design of effect analysis at a later stage.

Other suggestions

- 209 Academics: M. Cameran, D. Campa, A. Pettinicchio proposed that as an additional step, especially for the first few implementations, a detailed analysis document should be reported to the general public, investors, firms and stakeholders to describe how the different stages have been implemented in reality and integrated into the standard setting due process.

Final recommendations of EFRAG and the ASB for question 19

- 210 EFRAG and the ASB agree with the views of some constituents that the standard setter should initiate a procedure to encourage National Standard Setters and other relevant bodies to share their knowledge and experience in the area of effect analysis, taking the proposals forward through to the implementation stage.
- 211 In EFRAG's and ASB's view, National Standard Setters and other standard setting bodies should work together to design and test a methodology for effect analysis.
- 212 Accordingly, EFRAG and the ASB welcome the recent recommendation of the Trustees of the IFRS Foundation to establish a working group from the international community, chaired by the IASB, to develop an agreed methodology for field testing and effect analysis.

Appendix: List of respondents

The comment letters were received from the following respondents:

Accounting firms

- Deloitte Touche Tohmatsu Limited (Deloitte) (Global)
- KPMG LLP (Europe)
- PricewaterhouseCoopers LLP (PwC) (Global)

Accounting bodies

- Accounting Committee of Chartered Accountants Ireland (CAI) (Ireland)
- Association of Chartered Certified Accountants (ACCA) (Global)
- European Federation of Accountants and Auditors for SMEs (EFAA) (Europe)
- Federation of European Accountants (FEE) (Europe)
- International Federation of Accountants (IFAC) (Global)
- The Institute of Chartered Accountants in Australia (ICAA) (Australia)
- The Institute of Chartered Accountants in England and Wales (ICAEW) (Global)
- The Institute of Public Accountants (IPA) (Australia)

Standard setters

- Accounting Standard Board (AcSB) (Canada)
- Accounting Standard Board of Japan (ASBJ) (Japan)
- Accounting Standards Council (ASC) (Singapore)
- Autorite des Normes Comptables (French Accounting Standard Board) (ANC) (France)
- Dutch Accounting Standard Board (DASB) (The Netherlands)
- FSR – Danske Revisorer (Danish Accounting Standards Board) (NRS) (Denmark)
- Organismo Italiano di Contabilita (OIC) (Italy)
- Norsk RegnskapsStiftelse (Norwegian Accounting Standards Board) (NRS) (Norway)

Preparers and business associations

- Association for Financial Markets in Europe (AFME) (Europe)
- BP PLC (UK)
- British Telecommunication plc (BT) (UK)
- BUSINESSEUROPE a.i.s.b.l (Europe)
- Group of 100 Inc (G100) Australia

Academics

- European Accounting Association (EAA) (Europe)
- Mara Cameran, Angela Pettinicchio, (Universita Bocconi, Milan, Italy) and Domenico Campa (Trinity College, Dublin, Ireland)

Others

- European Securities and Markets Authority (ESMA) (Europe)
- Institute and faculty of Actuaries (The Actuarial Profession) (UK)
- Domenic N. Savini, CPA (USA)
- Edward W. Trott (USA)
- Denise Silva Ferreira Juvenal (Brasil)

