

AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

LONDON 8 JULY 2014

Agenda ref 3C

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Effects Analysis: update

Introduction

1. The purpose of this paper is to update the DPOC on the work of the Effects Analysis Consultative Group (EACG). The Committee last considered the work of the EACG at its meeting in April 2014 (Agenda Paper AP 3D for that meeting refers).

Near-final report

2. Please find attached a near-final version of the report of the EACG. Please note that the report is provided to the DPOC as a confidential draft, pending clearance from the Consultative Group, and so is not included in the public papers. Although there is nothing controversial in the report it has yet to be discussed in this form. Accordingly, it is not included in the public papers.

Steps taken

3. Since you saw the last version I have:
 - (a) incorporated detailed comments received from members of the consultative group;
 - (b) incorporated comments from the DPOC;
 - (c) briefed the IASB on the overall nature of the report;
 - (d) presented a summary of the likely recommendations to the IFRS Advisory Council and reflected their feedback in the report; and
 - (e) run a staff session on the report.

Changes to the report from the April version

4. The revised report has been had some sections relocated to make the report flow better. The changes are relatively minor in terms of the overall messages in the report, but they make the recommendations clearer.
5. The copy I have provided to the DPOC is a clean copy on which I have highlighted the paragraphs that contain the more substantive changes from the last draft. In summary:
 - (a) A new background section has been added to give more context to the report and explain the role of the Consultative Group.
 - (b) The *Conclusions and recommendations* have been written so that this section is more self-contained.
 - (c) The report has been strengthened in several places to emphasise that the IASB needs to consider, having considered a financial reporting issue, whether doing nothing is a more cost-effective way forward,. In other words, the onus is on the IASB to justify making a change to financial reporting requirements.
 - (d) Some members of the consultative group thought that the references to ‘transparent’ reporting were too easily confused with the fact that the IASB acts in a transparent manner. The report now refers to general purpose financial reporting (and includes an explanation early in the report that general purpose financial reports are intended to make the activities of a reporting entity more transparent to existing and potential investors, lenders and other creditors).
 - (e) The report now has more references to, and extracts from, the Constitution and *Conceptual Framework for Financial Reporting*. These references help clarify which issues or objectives are originated by the IASB and which conclusions or recommendations come from the Consultative group.
 - (f) A clearer explanation, and examples, of direct costs to preparers and users of financial statements of changes to financial reporting requirements has been added.
 - (g) The financial stability section has been redrafted. We have added references from the FSB’s website so that the role of the FSB is described in the report using their own words. In addition, the report acknowledges that, as a member of the FSB, the IASB has a responsibility to support the objectives of the FSB. Within that context it goes on to emphasise that the objectives of the two bodies are complementary rather than competing and that our objectives are not in any way in conflict with those of the FSB.

- (h) The largest change in terms of new words is in the fieldwork sections, which have been expanded substantially. The reason for doing so was to give the IASB staff much richer explanations of fieldwork to help them implement the report. The expanded fieldwork discussions draw on examples from existing IASB practice.

Next steps

- 6. The report is with the members of the consultative group. The next steps are:
 - (a) approval by members of the group to present it to the IASB;
 - (b) formatting and publication of the report.
- 7. Once the consultative group has signed off on the report I will inform the DPOC.

Consequences of the report

- 8. In my view, the work of the consultative group has been helpful. It has highlighted areas where the IASB could improve the nature of its work and analysis and areas where the IASB could improve how it communicates the work it has been undertaking.
- 9. My assessment is that the most significant likely impacts from implementing the report recommendations are:
 - (a) more extensive use of evidence and more structured analysis throughout the development of financial reporting requirements, and an understanding that the IASB is undertaking this analysis as part of the standard-setting process and that it 'owns this process;
 - (b) better communication of the likely effects and a better understanding of the economic and other factors that the IASB took into account in reaching its decisions, by:
 - (i) publication of a separate Effects Analysis report when a major project is completed, using language and a style for an audience of non-accounting specialists;
 - (ii) more focused sections addressing effects and fieldwork on the project pages of the IFRS website; and
 - (iii) better access to fieldwork instruments and results.

- (c) better co-ordination with National Standard-Setters (NSS) and better understanding of the processes and responsibilities of the IASB and NSS.

Due Process Handbook

- 10. I also think it will be necessary to make some small amendments to the *Due Process Handbook* to reflect the recommendations in the report. My assessment is that any changes will not change the structure or tone of the Handbook. Instead, they will be changes such as including a requirement that the IASB would normally publish a separate Effects Analysis Report when it completes a major project.
- 11. These changes are not urgent. They could be included with other changes we might propose, such as for the IFRS Taxonomy, rather than being put out separately. However, I think it is important that these changes are made to demonstrate how the report has caused some changes to our practice.

Implementation

- 12. For this report to be effective we need to ensure that it is implemented in a sensible and meaningful way. In this respect I thought it helpful to highlight some of the steps we have taken, and are planning, for the second half of 2014.
- 13. All of these activities support the development of financial reporting standards and, in the words of the report, are about ‘good standard setting’.

Effects Analysis Tool kit

- 14. In April we employed a research associate to help develop a Toolkit for the technical staff to help them implement the recommendations. The plan is to have a practical resource pack for staff to help them plan fieldwork as part of their project plan, select appropriate analysis tools and use appropriate ways to report the results effectively.
- 15. Our new staff member has some experience with an effects analysis, having worked in a specialist team reviewing effects analysis for the European Parliament.

Evidence supported standard-setting

- 16. During the first half of this year we have built an internal Research Portal. The intranet based portal provides access for staff to:
 - (a) international GAAP guides of the major firms;
 - (b) financial report databases;

- (c) financial and economic databases;
 - (d) financial statement analysis reports; and
 - (e) academic and business articles.
17. Some of these resources were used by individuals. Bringing them together into a portal has increased access and use. We have been able to negotiate better (ie electronic) access to the international GAAP guides and have developed good relationships with libraries to help us to access their information.
18. Other resources are new—such as the financial report database and financial and economic database. We have already found the new resources to be invaluable. For example, we have undertaken some analysis in the last few months for the Insurance contracts project and the Leases project that was not previously possible. These new tools give us the ability to undertake types of fieldwork that were previously very difficult to do.

Professional Development Programme

19. Working with HR, we are developing a programme to help people identify how best to work with evidence and to manage fieldwork. I have emphasised on many occasions that we are not trying to turn the IASB into a research maker, but we are a research taker.
20. The emphasis of the programme is on how to undertake fieldwork, such as setting up a case study, a survey or a test of drafting clarity, how to collect descriptive data and how to use research developed by others. There is a particular emphasis on the limitations of research. Although IASB staff are unlikely to undertake research of the nature of the work published in academic journals, it is equally important that simple surveys and descriptive data should be used appropriately.

Website development

21. The changes we made to our project web pages have proved to be very effective. We plan to further enhance the project pages by creating special sections for fieldwork and for other material that supports the assessment in each phase of a project.

The Research Centre and encouraging independent research

22. In April we launched the IFRS Research Centre, which includes a new publication called *Research Roundup*, which is aimed at the independent research community. The research centre sets out the activities we have designed to encourage academics and other research professionals to undertake research that is beneficial to the IASB. Some of the activities include:

- (a) A new *Research Forum* developed with top-tier research journals. The first forum is being held in conjunction with the journal *Accounting and Business Research* and is being held at SAID Business School at Oxford University in October. All the papers focus on the *Conceptual Framework*. The 2015 forum is in Asia-Oceania.
 - (b) Collaboration with the IAAER.
 - (c) Participation at academic conferences to encourage policy-relevant research.
23. At a very practical level, we are being approached by many academics wanting to work on areas of interest to the IASB.

Questions for the DPOC

The near-final copy of the report and this accompanying paper are mainly for the information of the members of the DPOC. However, are there any aspects of the report that you are concerned about or on which you have some questions?

Are there any aspects of the planned implementation activities that you would like additional information about?