Accounting Standards Board
AcSB
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Conseil des normes comptables

277 Wellington Street West, Toronto, ON Canada M5V 3H2 Tel: (416) 977-3222 Fax: (416) 204-3412 www.acsbcanada.org

277 rue Wellington Ouest, Toronto (ON) Canada M5V 3H2 Tél : (416) 977-3222 Téléc : (416) 204-3412 www.cnccanada.org

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Submitted electronically to commentletters@efrag.org

EFRAG
35, Square de Meeus
1000 Brussels
Belgium

Dear Sirs,

This letter is the response of the Canadian Accounting Standards Board to the Discussion Paper "Considering the Effects of Accounting Standards" issued for comment in January of this year. Information about the Accounting Standards Board is available at www.acsbcanada.org.

We strongly support the incorporation of effects analysis into the standard setting process. A clear statement of the objective of a standard setting project and of the expected effects should focus the effort in developing the standard, making the standard setting process more efficient and effective. Clear communication of these to stakeholders will clarify for stakeholders what the standard setter's objectives are and allow stakeholders to provide feedback on whether the objectives are appropriate and the effects have been correctly identified. The result of this should be standards that better meet the objectives of financial reporting.

We agree that macro-economic effects should be included in the effects analysis. The effects analysis process needs to be clear that the primary objective of the standard setter is to serve the public interest by contributing positively to delivering improved financial reporting, consistent with the objective of financial reporting in the conceptual framework. Standard setters should have a "due diligence" responsibility to make reasonable efforts to identify significant macro-economic effects. Depending on the standard they may not have the expertise to identify all the broader range of significant effects that might result from a new accounting standard. We agree that, to the extent that a standard setter identifies a consequence that falls outside the objectives of financial reporting, it should notify the appropriate regulator, government department or other body.

We view post-implementation reviews as a critical part of the standard setting process. It is important that standard setters ascertain whether a new accounting standard is actually producing the expected positive effects, whether expected negative effects are worse than expected and whether any unanticipated effects have arisen. Post implementation reviews add credibility to financial reporting by validating that a new accounting standard has actually improved financial reporting and providing information on any aspects of the standard where modifications would further improve financial reporting. A further benefit is that post-implementation reviews can also act as a feedback loop on the process used in developing a standard. Learnings from post-implementation reviews should be used to help improve the standard setting process in the future.

While we support the use of effects analysis, we think that field testing is required before this is formally incorporated into the standard setting process. Field testing will test the principles identified in the discussion paper. It will allow some experimentation with effects analysis and experience to be gained to ensure that the effects analysis process is efficient and effective. There should be a post-implementation review for each field test to analyse the actual effects of including effects analysis in the development of the standard.

Comments in response to each of the specific questions raised in the discussion paper are included in the attachment to this letter.

We would be pleased to elaborate on our comments in more detail if you require. If so please contact me, Peter Martin, Director, Accounting Standards at +1 416 204 3276 (email peter.martin@cica.ca) or Mark Walsh, Principal, Accounting Standards at +1 416 204 3453 (e-mail mark.walsh@cica.ca)

Yours truly,

G.C. Fowler

Gordon C. Fowler, FCA
Chair
Canadian Accounting Standards Board
gord.fowler@cica.ca (+1 416 204 3490)

APPENDIX

Response of the Canadian Accounting Standards Board to questions in the EFRAG discussion paper "Considering the Effects of Accounting Standards".

1. *Should effects analysis be defined as "a systematic process for considering the effects of accounting standards as those standards are developed and implemented?*

   We agree with this definition. It is important that effects analysis encompasses not only the period when a standard is being developed but also an evaluation after experience has been gained of applying the standard by a variety of entities in different circumstances. A new standard that has gone through the most thorough and transparent process of development may still have unanticipated effects. The current definition in the Due Process Handbook for the IASB and the other definitions provided in paragraph 2.5 of the Discussion Paper do not include this key feature.

2. *Should effects analysis be integrated into the standard setting due process?*

   Yes. The discussion in the paper seems to address this as two questions. First – should effects analysis be included in the standard setting process and secondly should this be part of the due process or achieved in some other manner (e.g. governance arrangements). Identifying the desired effects of a proposed standard is important in order to guide its development. Ongoing assessment of the positive and negative effects is necessary as the standard is being developed. Transparency requires that stakeholders understand the intended effects of a new standard so they can provide input on the Board's assessment of the effects.

   The IASB's current due process includes several aspects that might be viewed as consistent with an effects analysis. The question is not whether effects analysis should be included in the standard setting due process but what changes to the IASB's due process should be made to improve the focus on the expected and resulting effects from a new standard.

3. *Should the standard setter be responsible for performing the effects analysis?*

   We agree that the standard setter should be responsible for performing the effects analysis during the development of a new or amended standard. Consideration of the effects of the standard should be an integral part of the standard setter's process. We also think that the effects analysis should be part of the review of each standards project by the Due Process Oversight Committee of the IFRS Foundation Trustees. However we see some advantages in post- implementation reviews of the actual effects of a new standard being carried out by a separate body, possibly reporting directly to the IASB Foundation Trustees. This would ensure an independent view of the effects of the standard and whether those effects differ from the anticipated effects. We think this independence will be important for the credibility of effects reviews carried out post implementation.

4. *Should effects be considered throughout the life cycle of a standard setting project and documents showing the key elements of the effects analysis published when:*

a) an agenda proposal for a project is considered

b) each of a discussion paper, exposure draft and final standard is issued, and

c) when there has been experience of applying the new standard (i.e. post-implementation)?

We agree that the expected effects should be considered as part of an agenda decision and when project related documents are issued for comment. Time spent in developing a clear effects analysis at the outset of a project and in updating this during the development of an IFRS will be beneficial in focusing the project appropriately. The investment of time in the effects analysis is likely to result in a shorter overall time to develop a new IFRS.

We think a discussion paper or exposure draft should ask whether stakeholders agree the identified effects are appropriate and that those are the effects that will result from the proposals. As previously noted, we strongly support post-implementation reviews of the effects resulting from new standards. This is a critical feedback loop for the standard setting process.

5. *Should an effects analysis be required for all new standards or amendments to standards? Should the depth of analysis be proportionate to the scale of the effects?*

We agree in principle that an effects analysis should be required for all new standards or amendments to standards. We think that the work effort required for an effects analysis will naturally vary depending on the nature of the standards project. For example, modifications to an existing standard will often require a less extensive effects analysis than will a significant new standard due to the more limited nature of the change. However we think that there needs to be experience with effects analysis before the question of how to apply proportionality appropriately can be addressed. It is important that the scope of all post-implementation reviews identify the actual effects resulting from the new standard and how they compare to the expected effects.

6. *Should "effects" be defined 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"?*

We agree that "serving the public interest by contributing positively to delivering improved financial reporting properly describes the purpose for which a standard setter exists and that any other objective is either not appropriate as an objective for a standard setter or is a subset of the objective of serving the public interest by contributing positively to delivering improved financial reporting".

We strongly support the objective of financial statements as specified in the conceptual framework for financial reporting. We think there has to be consistency between the effects considered by accounting standard setters and the objectives of financial statements and that this consistency must be very clear. This does not preclude effects analysis having a larger scope – this issue is addressed in our response to question 8 on whether the scope of effects analysis should include both macro-economic and micro-economic effects. Clarity on the meaning and scope of "improved financial reporting" is critical as this will drive the development and post-implementation reviews of standards.

7. *Should the term "effects" be used rather than "costs and benefits"?*

We agree that obtaining quantitative information on the costs and benefits of a new accounting standard is generally impractical. In our experience it is very difficult, if not impossible, to quantify many of the "benefits" of an improved accounting standard, in particular, the improvement to the thought process and decisions made by users of financial statements.

While we do not think that a cost-benefit analysis necessarily requires quantification of costs and benefits, it seems that the terminology implies this to some people. We agree that the term "effects" should be used in order to avoid any misunderstanding. "Effects" is a broader term that more clearly encompasses qualitative assessment as well as quantitative.

8. *Should the scope of "effects" considered include both macro-economic effects and micro-economic effects?*

We think the primary focus of an accounting standard setter must be to develop and issue standards that serve the public interest by contributing positively to delivering improved financial reporting, consistent with the objective of financial reporting as specified in the conceptual framework. This is generally consistent with a focus on the micro-economic effects.

However an accounting standard may have broader, macro-economic effects. The standard setter should endeavour to be aware of these as the standard is developed. Often other parties will identify these effects and communicate them to the standard setter during the process of developing the standard. When the standard setter believes there may be a macro-economic effect, it should discuss this with knowledgeable parties. This does not mean the accounting standard setter is responsible for determining each macro-economic effect (or even each significant one). This is an unreasonable expectation given the knowledge and expertise of standard setters. Rather, the standard setter should exercise reasonable "due diligence" in this respect.

When the standard setter is aware of an adverse macro-economic effect, it should consider whether that effect could be significantly reduced or eliminated by adjustments to the proposed standard that are consistent with the overall objective of serving the public interest by contributing positively to delivering improved financial reporting.

9. *Can a standard-setter only be expected to respond to an effect outside its remit by informing the relevant regulator or government body and obtaining confirmation that they will take appropriate action?*

When a standard-setter is aware of possible broader implications then we agree it should make the appropriate parties aware of the proposed changes in accounting standards. We do not think a standard setter should necessarily delay a standard setting project because a regulator of government body has yet to confirm they will take appropriate action. The lack of such confirmation could seriously delay a standard that would meet the objective of improving financial reporting. Appropriate consultation and co-ordination between the accounting standard setter and the regulator or government body should minimize this issue.

10. *Should "effects" be defined by reference to the objective of serving the public interest by contributing positively to delivering improved financial reporting?*

We agree that effects should be defined as consequences referenced against an objective for the reasons identified in paragraph 3.20 in the Discussion Paper. This objective should be consistent with the objective of financial reporting in the conceptual framework. The term "improved financial reporting" could be interpreted in different ways. It is important that more precise words be used so it is clear that financial reporting has the same meaning as in the conceptual framework and not a broader meaning.

11. *Are the following clarifications of "effects" appropriate:*

a) effects can be positive, negative or neutral,

b) effects should refer to the marginal effects relative to the status quo,

c) effects may be one-off or ongoing,

d) effects can refer to both anticipated effects and actual effects?

We agree that these clarifications are appropriate.

12. *Should effects be considered in terms of both their incidence and their nature? Should effects analysis prioritize effects?*

We agree that the incidence (who is affected) and nature (how they are affected) of effects should be considered. Both dimensions are necessary to evaluate the significance of the effect and, in the case of negative effects, whether any changes to a standard or proposed standard should be considered.

We agree in principle that standard-setters should identify the relative significance of the effects. In most cases there will be both positive and negative effects and the standard-setter needs to be able to explain how it reached the conclusion that the positive effects outweighed the negative effects. It may also be helpful to stakeholders to know which effects the standard-setter sees as the most significant. However, we think that some experience with effects analysis will be required before the most useful and efficient way to prioritize effects is determined. There is a danger in over-engineering the process. We suggest that there be an effects analysis of the effects analysis process to ensure the objectives of the process are clearly stated and the effects of both the overall process and the detailed process steps are understood. We also suggest a more neutral term than "prioritize" be used.

13. *Should there be a set of key principles underlying effects analysis?*

We agree that a standardized approach to effects analysis should be developed.

14. *Should the key principles be:*

a) explain intended outcomes

b) encourage input on anticipated outcomes

c) gather evidence

d) consider effects throughout due process.

We agree with the key principles as stated. We again emphasize the importance of post-implementation reviews. It is not clear whether "throughout due process" includes post-implementation reviews. This would require encouraging input on <u>actual</u> outcomes as well as anticipated outcomes (see principle b).

15. *Process for validating the anticipated outcomes*

We have no specific comments on this question but note that experience with effects analysis may suggest some modifications to the proposals.

16. *Process for identifying and assessing effects*

We have no specific comments on this question but note that experience with effects analysis may suggest some modifications to the proposals.

17. *Process for identifying options and selecting the preferred option*

We have no specific comments on this question but note that experience with effects analysis may suggest some modifications to the proposals.

18. *Should the IASB delegate to national standard setters some activities in gathering evidence of the effects of accounting standards?*

We think that this will depend, to some extent, on the scope of the effects analysis. If it is to include a broad scope of effects, including macro-economic effects, then national standard-setters are better placed to identify such effects in their jurisdictions through their interfaces with regulators, governments and others. We agree that it might be difficult for the IASB itself to identify and understand jurisdictional-specific issues across the more than one hundred jurisdictions using IFRSs. To the extent the IASB relies on input from national standard setters, it will need to develop a protocol with each national standard setter on what the role and responsibilities of the national standard setter are. The IASB will need to manage this process on an ongoing basis to ensure it receives the appropriate input from national standard setters.

If the scope is limited to the effects on financial reporting (as defined in the conceptual framework) then we see less need for delegation to national standard setters. The current process is for constituents to respond directly to the IASB on documents issued for comment. Some national standard setters (including ourselves) respond to these documents while others do not. It is not obvious why the process for effects analysis would be different. We would see the effects analysis, and questions relating to it, being included in discussion papers and exposure drafts.

19. *Next steps*

We agree that effects analysis should be field tested by applying it to one (or more) new IASB projects. This should be done before including effects analysis in the IASB's Due Process Handbook. As stated earlier in this response it is likely that experience will lead to modifications and improvements of the effects analysis process.

We think that field testing does not have to begin with new standards projects. Useful experience could also be gained by applying effects analysis to projects that have already commenced. A project for which a discussion paper or exposure draft has already been issued would benefit from developing an effects analysis at its current stage. A further suggestion relates to post-implementation reviews of IFRSs that have already been issued and therefore did not have an effects analysis during their development. An effects analysis of the expected effects at the time the IFRS was issued could be developed retroactively, based on project files, material in the Basis for Conclusions etc and then used in the post-implementation review. While not a substitute for a full cycle field test, we think that this would provide some useful experience in effects analysis and also benefit the post-implementation reviews of those IFRSs.