By E-mail: commentletters@efrag.org

EFRAG
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1 August 2011

Dear Sirs

Discussion paper - '*Considering the Effects of Accounting Standards*'

We appreciate the opportunity to respond to this consultation issued by the European Financial Reporting Advisory Group (EFRAG) and the UK Accounting Standards Board (ASB).

This response summarises the views of member firms of the PricewaterhouseCoopers network that commented on the consultation. "PricewaterhouseCoopers" refers to the member firms of PricewaterhouseCoopers International Limited, each of which is a separate legal entity.

We have considered all of the questions in the discussion paper. Our comments on those specific questions where we have a particular view are included in the accompanying Annex. In this covering letter we provide some overall observations on what we consider to be important issues raised by the discussion paper.

A flexible approach based on principles

We agree that the IASB should conduct effects analyses of major new pronouncements. This will aid transparency and help stakeholders to have confidence in the standards setting process. The Due Process Oversight Committee of the Trustees, in assessing whether appropriate due process has been followed in the development of a standard, should in the future consider also whether an effects analysis has been performed.

The EFRAG paper proposes a definition of 'effects' along with a recommendation that it embrace both entity-specific micro-effects and wider macro-effects. It also sets out, in paragraph 4.2, a series of four 'key principles' underpinning effects analysis. Any agreed methodology for conducting an effects analysis will involve inherently subjective judgments and should therefore be based on appropriate principles. We are supportive of the four principles.

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The methodology and processes around effects analysis should not be overly bureaucratic. For example, the paper suggests (in paragraph 2.15) that a document setting out the key elements of the effects analysis should be required, at a minimum, at five different stages in the development life-cycle of a standard. We do not envisage that the Board will have sufficient resources or time to devote to the preparation of four or five additional formal papers for each standard. A more flexible approach is needed.

Challenges in assessing macro-effects

The difficulty of assessing macro-effects should not be under-estimated. The Board cannot be expected to, and may not have the appropriate skills and knowledge to, anticipate all the macro-effects that an accounting standard might have. Moreover, macro-economic effects may be different for each country. The proposals need to be realistic in terms of what is possible.

The paper suggests that the effects analysis should be conducted on a global basis. We believe this would best be undertaken by IASB utilising the network of national and other standard setters to conduct outreach (with appropriate supervision and accountability by the IASB). However, those standard setters may not currently have the resources or the staff skills needed to assess the macro-effects, if these are to be included – input may be required from other organisations.

Next steps

It is difficult to visualise what an effects analysis might look like in the abstract. We suggest that, as a next step, it would be useful for the IASB (perhaps working with EFRAG and ASB) to map out the principles underpinning the methodology and to prepare a sample of an effects analysis for a recently completed, or soon-to-be completed, standard.

This would also help stakeholders to understand better how the effects analysis would play out alongside the current due process and outreach steps undertaken by the IASB.

We would be delighted to discuss our views further with you. If you have any questions in the meantime regarding this letter, please contact John Hitchins (+44 207 804 2497) or Graham Gilmour (+44 207 804 2297).

Yours sincerely

PricewaterhouseCoopers LLP

ANNEX

Detailed comments on questions in the discussion paper

Q3. Do you agree that the standard setter should be responsible for performing effects analysis, and that the performance of effects analysis by any other body is not a sufficient or satisfactory substitute (paragraph 2.11)? If not, why not? Please explain the reasons for your answer.

We agree that the standard setter (the IASB in this case) should be responsible for the overall performance of the effects analysis. However, that does not mean that the IASB needs to conduct all the detailed analysis itself. Some aspects of the analysis could be performed by national standard setters or by other organisations (perhaps in fields other than accounting) that have expertise in a particular area. The IASB should review the effects analysis work outsourced to others and should respond appropriately.

Q4. Do you agree 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 effects 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 effects analysis is an update to 'A', to reflect the latest information available)**
- **C. When an exposure draft is issued for public consultation (this effects analysis is an update to 'B', to reflect the latest information available)**
- **D. When a final standard or amendment is issued (this effects analysis is an update to 'C', 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.**

If you do not agree, why is this? Please explain the reasons for your answer.

While we agree that the standard setter should be mindful of the impact of proposals at all stages of the development of a standard, we do not consider that it is necessary to prepare a formal document at each of the five stages set out in paragraph 2.15. This would lead to a more bureaucratic approach and would absorb much Board and staff time that could be spent on other activities. It would also slow down the pace of standards development at a time when the Board is under pressure to complete standards to meet the expectations of stakeholders.

An alternative might be to incorporate consideration of effects in other documentation already prepared by the Board (for example at the Exposure Draft stage or in the Basis for Conclusions issued with each new standard).

Q5. Do you agree that effects 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)? If not, why not? Please explain the reasons for your answer.

We agree that the extent of effects analysis undertaken should be responsive to the importance of the pronouncement. An effects analysis should be conducted for each major new standard (or major revision of an existing standard). We do not consider that an effects analysis is necessary for all amendments to standards, annual improvements, or interpretations of standards.

Q6. Do you agree 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)?

If you disagree with the proposed definition, or would like it to be amended, please provide an alternative definition and please explain why you favour that alternative definition.

We believe the consideration of the 'public interest' should be related closely to the mission of the IFRS Foundation. This has recently been the subject of consultation by the IFRS Foundation Trustees in relation to their Strategy Review, but our view is that the primary objective of financial reporting (and hence of financial accounting standard setting) is to report to investors and others in the capital markets so that they can make economic decisions. It is in the public interest to have well-functioning and orderly capital markets and to have a comprehensive set of financial accounting standards that underpin those markets.

We do not believe that "*considering the well-being of the community at large*", as suggested in paragraph 3.22, is a basis on which accounting standards setters can write standards or conduct an effects analysis.

Q8. Do you agree that the scope of the 'effects' to be considered, for the purposes of performing effects analysis, should include all effects, both 'micro-economic effects' and 'macro-economic effects' (paragraph 3.12)?

If you disagree, please provide an alternative way of specifying what the scope of the effects to be considered should be, and please explain why you favour that alternative.

In principle, all micro and macro-effects should be considered in the effects analysis, including the potential impacts on business models. However it would be helpful for stakeholders if the authors of the paper provided a better definition or categorisation of 'effects', perhaps with illustrative examples of each category.

Such examples might also highlight the difference between situations where an accounting standard *itself* drives a particular economic behaviour (for example the structuring of transactions specifically to satisfy a provision in an accounting standard) and situations where the accounting standard merely faithfully portrays the economics of transactions in presenting an entity's financial position and performance (and where investors and others make economic decisions on the basis of that information).

The difficulty of assessing macro-effects should not be under-estimated. The Board cannot be expected to, and may not have the appropriate skills and knowledge to, anticipate all the macro-effects that an accounting standard might have. While it might be relatively easy to estimate some costs and benefits to a particular company of introducing a new accounting standard (for example the costs of reconfiguring accounting systems, training finance personnel, etc), a great deal more judgment and uncertainty may attach to estimating the macro-costs and benefits. The proposals need to be realistic in terms of what is possible.

Q9. Do you agree 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 and to notify them of the relevant issue and to obtain confirmation from them that they will respond appropriately to it (paragraph 3.17)? If not, why not? Please explain the reasons for your answer.

We agree that a standard setter can only be expected to respond to an effect that is outside of its remit by communicating with the relevant regulator or government body to notify them of the issue.

By way of example, and as noted in our recent response to the IFRS Foundation Trustees on their Strategy Review, we believe the IASB should include as part of its due process (and reflected in the Due Process Handbook) a step that, where it believes its proposals may have financial stability implications, it ensures that regulators are included in the consultative process. This should be a two-way exchange, such that regulators are informed of the Board's thinking and, at the same time, the Board is aware of regulatory considerations. Regulators and the Board would have the opportunity to think through any implications or unintended consequences of proposed changes to accounting standards, and any actions that they each might need to take to pursue their respective objectives.

Q18. Do you agree 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)?

We agree. Particularly in view of the resource constraints on the IASB, we believe the Board should make greater use of the resources from a variety of national and regional standard setters to contribute to the IASB activities of standards development, outreach and the conduct of effects analyses. It will not be feasible for IASB staff based in London to consider the effects of a new standard in different parts of the world, but it should be possible to harness a variety of regional and national standard setting organisations, each of which is closer to users in its local geography, in undertaking that work.