



31 August 2011

EFRAG
35 Square de Meeus
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Belgium

By email: commentletters@efrag.org

Dear Sir/Madam

Discussion Paper: Considering the Effects of Accounting Standards

The Institute of Chartered Accountants in Australia (Institute) welcomes the opportunity to comment on the proposals contained in the discussion paper *Considering the Effects of Accounting Standards* issued by the European Financial Reporting Advisory Group (EFRAG) and the Accounting Standards Board (ASB).

We represent over 50,000 Chartered Accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

Overall, we support the proposals to integrate into standard setting a systematic process for considering the effects of accounting standards. Our main concern however is that the process, if not carefully considered, may simply add further delays to standard setting, without improving the quality of accounting standards.

We have considered all of the questions in the discussion paper. Our comments where we have a specific view are summarised below under the same headings as those used in the discussion paper.

The process of effects analysis

We agree that the effects analysis should be integrated into the standard setting process but that the depth of the analysis should be proportionate to the importance of the effects of the new accounting standard or amendment. We believe the process should be sufficiently flexible to allow the unhindered progress of any minor amendments to accounting standards such as those contained in the annual improvements project.

We agree that the effects should be considered throughout the life cycle of a project. However, we consider that assessment of the effects five times during the process is excessive. Again a flexible approach is needed such that the analysis is proportionate to the importance of the effects so as not to add unnecessary delays to the issue of pronouncements. However we believe the post implementation review is an essential part of any effects analysis undertaken.

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We agree that the IASB should take overall responsibility and be accountable for the performance of the effects analysis. However, it may be appropriate for national standard setters to undertake some of the research, particularly if this results in a more efficient use of IASB resources. We agree that performing the effects analysis allows the standard setter to demonstrate that their activities are contributing to the improvement of financial reporting and this forms part of the responsibility of the standard setter.

The concept of effects

We believe the concept of effects should be consistent with and linked to the IASB Conceptual Framework objective of reporting. Therefore 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 and not to “serving the public interests”.

We are comfortable with the use of the term effects as opposed to costs and benefits but again believe there should be consistency with the Conceptual Framework. We note that the IASB Due Process Handbook refers to the process as effect analysis while recent IASB issued documents already include reference to Cost-benefit considerations (IFRS 9 *Financial Instruments* para BCG.3) or Benefits and Costs (ED *Investment Entities* BC 31).

The scope of effects should include a review of both micro and macroeconomic effects. We agree that improved financial reporting should result in better economic decision-making and more efficient allocation of capital. If an effects analysis can capture the link between a change in accounting standard and an improvement in allocation of resources then we support the undertaking of such analysis. However, careful consideration needs to be given to how to assess the macroeconomic effects given this needs to be done on a global basis. A rational, realistic approach needs to be adopted.

The key principles underpinning effects analysis

While we agree that there should be a set of principles underpinning the effects analysis, we do not agree with establishing a separate consultation process for constituents. Constituents already have an opportunity to raise any concerns they may have on the effects of accounting standards throughout the stages of standard setting. Building in a separate process may result in the analysis becoming overly bureaucratic and administrative.

The practicalities of performing effects analysis

We support the preliminary view that the IASB should delegate to national standard setters and similar institutions some of the activities involved in gathering evidence of the effects of accounting standards but the IASB should maintain the overall responsibility.

Next steps

We agree the next steps should include field testing and encouragement of national standard setters to share their knowledge where elements of the proposal have already been implemented within their jurisdiction. In the Australian jurisdiction, a Regulation Impact Statement (RIS) must be prepared where new regulation is introduced (this includes accounting standards). The Australian Accounting Standards Board (AASB) must prepare an RIS where an accounting standard results in medium or significant compliance costs.

Where the AASB prepares a RIS for a project, the RIS outlines amongst other things a cost/benefit analysis. We understand similar processes are undertaken by national standard setters throughout the world where new standards are introduced. Consequently, we believe due consideration must be given to how the process should be shared between the IASB and the standard setters so that there is no duplication.

We also agree that national standard setters should partner with the UK ASB or other partners in standard setting in taking their proposals forward. For instance the Asian Oceanian Standard Setters Group may be an appropriate group in the Australian geographical area to take proposals forward.

If you have any queries on our comments please contact Ms Kerry Hicks, the Institute's Head of Reporting via email at kerry.hicks@charteredaccountants.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lee White', with a horizontal line underneath it.

Lee White
Executive General Manager - Members