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RÉPUBLIQUE FRANÇAISE



AUTORITE DES NORMES COMPTABLES

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n°135

Paris, le 31 août 2011

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Objet : Evaluation des normes comptables.

Chère Madame,

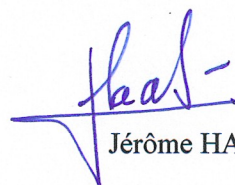
Je vous prie de trouver ci-après les propositions de l'ANC relatives à l'évaluation des normes comptables.

Ainsi que j'ai eu l'occasion de l'évoquer lors de la réunion de présentation à Bruxelles du discussion paper – Considering the effects of accounting standards, le document ci-joint met en relief deux points :

- le besoin d'une méthode précise pour procéder à une évaluation des normes comptables qui ne se borne pas à une appréciation de la cohérence matérielle de la norme ou aux aspects macro-économiques généraux. Aucune méthode de cette nature n'est à notre connaissance disponible aujourd'hui.
- avec quelques différences, la méthode proposée par l'ANC est applicable à une évaluation de la norme tant préalablement à son adoption qu'après son adoption.

Je ne doute pas que toutes les parties intéressées sauront obtenir de l'IASB l'application des principes sous-jacents à une telle méthode.

Je vous prie d'agréer, Chère Madame, l'assurance de mes salutations distinguées.


Jérôme HAAS

The assessment of accounting standards: the need for an ambitious approach

Why is an assessment methodology for accounting standards required?

1. **For several decades, the conduct of public policy has assigned a specific role to assessment.** In practice, assessment systems take different forms but their purpose is the same. Their purpose is to ensure the effectiveness and efficiency of past and future decision taking, whether in respect of legislation or regulation or even within the scope of project management. Thus, assessment is a means of achieving public accountability and of making the decision process more transparent. It is also a means of determining whether public interest has been correctly served.
2. The assessment of public policies, in the broad sense, and more specifically of regulations has spread to many areas of public action, particularly with regard to infrastructures and to the social or environmental areas. Over time and as a result of different experiments, **good practices have developed** and have been the subject of both academic and institutional publications.
3. An example in the field of regulations that we could mention is the several years of studies conducted to assess the effect of changes in prudential regulations in banking and insurance. These initiatives, which represent good practice, have fundamentally improved over several years.
4. And accounting standards are unquestionably a form of regulation.
5. **Accounting standard-setting cannot remain outside the scope of the good practices of assessment.**

The need for sound assessments

6. **It is precisely in the area of accounting standards that the lessons of recent years must be learned: both the financial crisis and developments in international standards demonstrate the need for sound assessments. indeed :**
 - a. the crisis has accentuated how economic decisions could be relayed on the markets as a direct result of the choice of accounting representation ;
 - b. the most recent standards have led to the adoption of new concepts that are insufficiently robust and validated ; the “basis for conclusions” is insufficient to establish the understandability and validity of the concepts, or their consistency with other standards or the conceptual framework ;
 - c. the process of developing those standards has used different consultation techniques, none of which has really been subjected to a proper assessment; the

term “field-testing” has been used to express this request for assessment without defining precisely what it means.

7. **For all these reasons, it seemed necessary and urgent to draw up concrete proposals for assessing accounting standards, the specific characteristics of which require an appropriate approach.**

Three preliminary remarks may be made:

8. 1) During the discussions about IFRS in Europe since their introduction in 2002-2005, the need for assessment has surfaced in different ways depending on the time and place. A number of different terms have been used, such as “economic impact” (by the EU Ecofin Council, on several occasions) or “cost/benefit analysis” (using the vocabulary of global assessment), “impact studies” (by reference to European Union texts and practices), or again “effect studies”, an expression which has substantially the same meaning as the previous terms.
9. The IASB, in addition to its voluminous “due process” documentation, has used more and more extensive and varied terminology, such as for example: field tests, field visits, feedback statements, outreach...
10. **In fact, the terminology used is of no importance. The only thing that really matters is that an authentic policy for assessing accounting standards exists.**
11. In this paper we will use the generic term “assessment”.
12. 2) The nature and the need for assessments of the production of a standard-setter are different according to the due process and the method of developing standards.
13. Where the due process is based on the requirements expressed by stakeholders and on the development of the standard by these stakeholders, the relevant economic agents are involved at the source. It is therefore highly likely that most of the economic effects will be anticipated in the process of production of the standard.
14. Conversely, a decision process starting with a conceptual approach developed by specialised staff of the standard-setter published on this basis and only then, ultimately submitted for consultation, is more likely not to anticipate the economic effects of the standard.
15. The due process of the IASB is closer to the second approach described above. **For this reason, it is all the more essential to subject drafts and final versions of international accounting standards to rigorous assessment procedures.**
16. 3) The system requires precision: an assessment cannot be limited to determining the internal efficiency of standards, nor be expanded to vague objectives such as the macro-economic effects of the standards. In fact, the impact of accounting standards on the economy is well circumscribed: it influences, via the representation of the economic activity of companies, the decisions and behaviour of all the agents which are their

partners and ultimately, by way of aggregation, influences business sectors and markets, and even possibly the economy as a whole.

17. **This is why the standard-setter cannot ignore the consequences of the standards it produces. It is therefore urgent to propose an effective method of assessing accounting standards.**
18. The following proposals describe a **methodology which could be applied both prior to and after adoption of accounting standards**. More specifically, they address two questions:
 - (a) What is an assessment of accounting standards?
 - (b) How can an assessment of accounting standards be implemented?

What is an assessment of accounting standards?

19. The assessment of accounting standards should consist of a practical “quality control”, which gives meaning, content and credibility to the expression “high quality accounting standards” which is commonly used in international circles.
20. Such assessments, which should be carried out both before and after adoption of standards by the standard-setter, should include:
 - (a) **The assessment of the intrinsic quality of the standard**, determined by considering the standard in its own right from the point of view of its internal consistency and suitability for its immediate environment ; it is the least that can be expected of a standard-setter ;
 - (b) **The assessment of the external effects of the standard** which measures the effects of the standard on its economic environment; this is what is really expected of a standard-setter, whose production forms part of a regulatory and economic environment that is broader than the realm of accounting.

The assessments of intrinsic quality:

21. The assessments of intrinsic quality should verify that :
 - (a) The standard is correctly read and understood by all concerned;
 - (b) The concepts used are clear, validated and consistent with the set of standards as a whole;
 - (c) The standard is translated into the accounts in a manner consistent with the fundamental objectives of the standard-setter (for example, recognition of new assets and liabilities in the balance sheet, reclassification of certain items at a particular level in the statement of comprehensive income, etc.) ;
 - (d) The requirements of the standard enable the recognition of reliable data.

The assessments of external effects:

22. **The assessments of external effects relate to the interaction of the standard and the economy and include :**
- (a) The identification of the need to develop or change a standard (the existence of an unsatisfied need, of the expression of a request, of a problem to solve);
 - (b) The simulation of the effects of the standard on the accounts (income statement, balance sheet, notes) showing the previous situation, the one resulting from the application of the standard and any alternatives to the proposed standard. This aspect is crucial; it should identify the “immediate” effects of the standard: increase of the balance sheet, increased disclosures, volatility of profit or loss, etc;
 - (c) The identification of the possible effects on the behaviour of economic agents, taking into account their specific circumstances. Economic agents include investors, management, prudential supervisors, market regulators, parties contracting with the companies, etc. ;
 - (d) The appraisal of these effects evidenced at entity level, in a cumulative way on the business sector or market.
23. At first sight it would seem appropriate to assess the intrinsic quality as a first step. However, this might prove superfluous where the assessment of the external effects leads to early identification of major problems. This is why, in practice, it is preferable on the contrary to proceed first with an assessment of external effects before examining the intrinsic quality.
24. Precise ways and means for the implementation of the eight principles above may be usefully developed further. Yet what matters is that each principle is effectively thoroughly applied in future assessments – otherwise they will lack essential components and credibility.
25. These principles are straight forward and simple to understand. Some of them, which may look more complex – like in 22 c) above - are current practice in many fields.
26. On the basis of this principles-based approach to assessments, the corresponding methodology will of course be improved and refined over time and best practices will be incorporated.

The combination of these assessments should lead to a global assessment.

27. It is obvious that a global assessment cannot be an average or even a weighted average of these different elements, the eight principles. It is a fact that, if it is generally simple to correct deficiencies in the assessment of intrinsic quality, this is not true of external effects.

28. Where serious issues arise in carrying out the assessment of the external effects, this should lead to reconsidering parts, aspects or even the whole standard.
29. Consequently, a global assessment should deal without bias with all of the issues encountered and propose effective solutions.

How can an assessment of accounting standards be implemented?

30. Assessments of accounting standards are large scale undertakings. They require appropriate implementation which should be as effective as possible, using all the resources available to the standard-setter.
31. It should be noted that the quality of the assessments will be all the more enhanced if the number and diversity of stakeholders taking part is large in order to ensure that public interest is properly taken into account.
32. Assessments should be carried out both before and after adoption of accounting standards by the standard-setter using slightly different approaches.

Before adoption:

33. The most important standards should be assessed before adoption. At the discussion paper stage, the organisation and the basis for assessment should be made known and set up for more detailed analysis in the exposure draft, alongside the draft standard.
34. Every significant amendment, or study of alternatives, should give rise to an assessment.
35. These assessments should be carried out by the international standard-setter, with the assistance of national standard-setters. The organisation of assessments is clearly an integral part of the work of a standard-setter which enables it to take responsibility for and justify its action, whilst staying in contact with the realities of economic life.

After adoption:

36. The IASB appears to have plans to subject all standards to an assessment two years after adoption. This obligation could be restricted to the most important or the most criticized standards, without pre-established criteria, as part of an independent review procedure. To avoid a potential conflict of interest for the IASB, a system ensuring the faithful restitution of assessments should be set up.
37. Such assessments may, by construct, be carried out by any stakeholder. This element of competition in the assessment of accounting standards appears to be a positive contribution to enhance the debate. For this reason, a summary of the assessments made by the different stakeholders should account for this diversity and therefore be carried out independently of the IASB.

Role of companies – obtaining data

38. One of the difficulties often raised at this stage is related to obtaining the data from companies. This problem was not encountered when assessing public policy as referred to above. It can be assumed that the difficulties sometimes met by academics in obtaining data will not be an obstacle, considering that this is an area related to regulation and that there is a collective interest in the successful implementation of a credible system of assessing accounting standards. It is likely that companies active in giving their views before or after the adoption of a standard will take the opportunity offered by the methodology presented above to assert their views.
39. The selection of companies making up the sample will need to be transparent and balanced, and justified as such. The names of the companies do not necessarily need to be disclosed, except to national standard-setters.

Sub-contracting

40. It may be helpful to use assistance to carry out assessments. However, where the standard-setter has to carry out an assessment before adopting a standard, it is preferable for the assessment not to be carried out, directly or indirectly, by private parties who do not incur direct responsibility, except for certain occasional tasks.

Time frame

41. Before adoption, as an indication, a properly planned assessment can take at the most 3 to 12 months. However, it should be clear that the standard remains a draft as long as it is not validated in respect of its intrinsic quality and external effects.
42. After adoption, a review should be instigated as soon as the first negative consequences are identified. As an indication, a systematic review of at least the main standards has been envisaged within a specific time frame of around two years.

Assessment report

43. An assessment report is a complete document including conceptual considerations, quantified scenarios and practical considerations arising from testing the standards on all the users, and elements of assessment based on all these items.

Conclusion

44. The above proposals, by giving responsibility to stakeholders in the standard-setting process, set out to achieve the objective which appears worldwide in all the charters defining standard-setting: to serve **public interest**.
45. First, without such policy, accounting standards will not attain the expected level of quality and economic agents will not have the necessary confidence to conduct their business or regulate the economy. And those ultimately responsible for protecting public interest, governments and parliaments will impose the procedures they consider appropriate.
46. Secondly, accounting standards are legal texts with far-reaching economic effects. This is why they need to be assessed with the public interest perspective.
47. The practice of assessing accounting standards has not yet come into existence. It is however becoming more and more vital in a global situation which requires increasing caution.
48. This is why a start should be made without delay, based on the lessons learned from the best general experience in this area and the issues specific to standard-setting. Based on the principles articulated in this document, good practice will develop and be established progressively. It is not necessary to transcribe them into lengthy written procedures, which more often than not are not obeyed in the letter: it is the spirit which counts, judged by the results, in other words by the quality of the assessment reports.