

EFRAG  
35 Square de Meeûs  
1000 Brussels  
Belgium

Oslo, August 31, 2011

Dear Sir/Madam

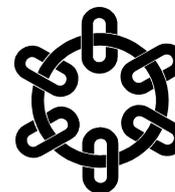
## **Discussion Paper, Considering the Effects of Accounting Standards**

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to comment on the EFRAG discussion paper Considering the Effects of Accounting Standards.

Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal  
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



## **SECTION 2: The process of 'effects analysis'**

1. Do you agree that “effects analysis” should be defined, for the purposes of accounting standard setting, as “a systematic process for considering the effects of accounting standards as those standards are developed and implemented” (paragraph 2.2)?

*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 agree.

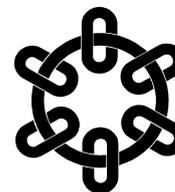
2. Do you agree that effects analysis should be integrated (or further embedded) into the standard setting due process (paragraph 2.7)? If not, why not? Please explain the reasons for your answer.

Yes, we agree that effects analysis should be integrated into the standard setting due process and hence provide transparency, accountability and creditability to the process. However, we have some concerns about the extensive work that has to be done to fulfill all the requirements set out in this discussion paper. Please see our comment to question 4.

3. 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.

4. 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 “postimplementation 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.*

We disagree with the extensive proposal made in the discussion paper. We agree that effects should be considered throughout the life-cycle of a project. However, in our opinion it should be left to the standard setter to decide when and how often a publication of a document setting out the key elements of the effects analysis should be published. In our opinion the point in time A and B listed above are at such an early stage in the process, that an effect study might not be very useful. At this early stage, the process is developing and comment letters from respondents will give useful insights to the standard setter for further analysis. An effect study in such an early stage as a discussion paper could potentially lead to too extensive work for the standard setter without adding any significantly to the project.

5. *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 all new proposed amendments and accounting standards should be subject to effects analysis, and that the depth of the analysis work should be proportionate to the scale of economic consequences.

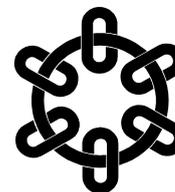
### **SECTION 3: The concept of ‘effects’**

6. *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 disagree with the definition set out in paragraph 3.2.

When evaluating whether a proposal are contributing positively to financial reporting we believe that the reference should be made to the Conceptual Framework which are the basis for developing accounting standards. The objective in the definition should be in line with the objective set out in chapter 1 in the Conceptual Framework. The users of financial reporting should be as defined in paragraph OB2 in the Conceptual Framework and not to the public interest. The effects should be evaluated based on the qualitative characteristics in chapter 3 of the Conceptual Framework.



7. *Do you agree that the term “effects”, rather than the term “costs and benefits”, should be used to refer to the consequences of accounting standards, in order to distinguish effects analysis from a CBA, on the grounds that it would not be appropriate to require a CBA to be applied to standard setting (paragraph 3.7)? If not, why not? Please explain the reasons for your answer.*

We agree

8. *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)?*

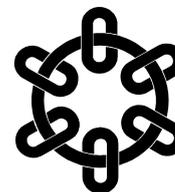
*If you disagree, please provide an alternative way of specifying what the scope of the “effects” to be considered should be, and please explain why you favour that alternative.*

The scope of effects should be referenced to the Conceptual Framework and its objective for financial reporting. In our opinion the effects studies should evaluate whether the proposed amendments or new standards are adding more useful information to the users as defined in the Conceptual Framework, given the limitations and cost constraints specified in Chapters 1 and 3. Considering all effects, both micro- and macro-economic effects, could potentially lead to a very extensively study, which again could substantially delay necessary amendments to the existing accounting standards.

9. *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 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.*

In our opinion, the standard setter (IASB) cannot be responsible for responding to effects from a change in an accounting standard which is outside its remit. We also think that the regulators themselves should be responsible for relevant issues concerning their remits, and that the standard setter only is responsible of communicating what changes they propose and the effects arising from the proposed amendments with reference to the Conceptual Framework. It cannot be expected that a global standard setter such as the IASB should inform all regulators (worldwide) of potentially issues and obtain confirmation from all of them, ensuring that each one of them will respond appropriately to the issues.

10. *Do you agree that “effects” should be defined by reference to an objective, and that the objective should be that of “serving the public interest by contributing positively to*



*delivering improved financial reporting”, where “serving the public interest” means “taking into account the interests of investors, other participants in the world’s capital markets and other users of financial information” (paragraph 3.19)?*

*If you disagree because you consider that “effects” should not be defined by reference to an objective, please explain the reasons for your answer.*

*If you disagree because you consider that “effects” should be defined by reference to an objective other than that specified above, please provide an alternative objective and please explain why you favour that alternative objective.*

We disagree with the proposal. “Other users of financial information” are a very wide group. The objective and the users should be aligned to the Conceptual Framework, see our reply to Question 6.

11. *Do you agree with the following clarifications of the term “effects”?:*

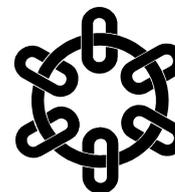
- a) *Effects can be “positive”, “negative” or “neutral”, as determined by whether they support, frustrate or have no impact on the achievement of the objective of serving the public interest by contributing positively to delivering improved financial reporting (paragraph 3.23);*
- b) *Effects analysis will usually involve assessing the “marginal effects” of an accounting standard or amendment, relative to the status quo that existed before its introduction, so the term “effects” should, in general, be interpreted to refer to “marginal effects” (paragraph 3.24);*
- c) *The term “effects” can be used to refer to both “one-off effects” and “ongoing effects” (paragraph 3.26); and*
- d) *The term “effects” can be used to refer to both “anticipated effects” and “actual effects”, depending on what stage the effects analysis is at – before, during or after implementation of the new accounting standard or amendment (paragraph 3.28).*

*If you do not agree with any of the above clarifications of the term “effects”, which one(s) do you disagree with and why? Please explain the reasons for your answer.*

We agree that the stated clarifications of effects can be useful, however we don’t rule out that there could be other ways of classifying effects that can be useful as well.

12. *Do you agree with the following further considerations concerning effects:*

- a) *Effects analysis should involve considering effects in terms of both their “incidence” (who is affected) and their “nature” (how they are affected), and that the standard setter should be transparent about whether and why they consider that the effects on one group should receive greater weight, less weight or equal weight to the effects on any other group (paragraph 3.30); and*



- b) *Effects analysis should involve prioritising effects, possibly by “ranking” them in terms of their “likelihood” of occurring and the magnitude of the “consequences” if they do occur (paragraph 3.32).*

*If you do not agree with any of the above further considerations concerning effects, which one(s) do you disagree with and why? Please explain the reasons for your answer.*

We disagree with the wording in the proposal. To prioritize every effect could be very challenging and should not be a requirement for effects analysis. It should be stated as an example of how it can be presented, but it should be the standard setters responsible to evaluate whether it is sensible to rank the effects against each other.

#### **SECTION 4: The key principles underpinning effects analysis**

13. *Do you agree that there should be a set of key principles underpinning effects analysis (paragraph 4.2)? If not, why not? Please explain the reasons for your answer.*

We agree that key principles are important to ensure common understanding and transparency of the effects analysis.

14. *Do you agree that the set of key principles underpinning effects analysis should be as follows (paragraph 4.2)?:*

***Principle 1:*** *Explain intended outcomes (refer to paragraph 4.2);*

***Principle 2:*** *Encourage input on anticipated effects (refer to paragraph 4.2);*

***Principle 3:*** *Gather evidence (refer to paragraph 4.2); and*

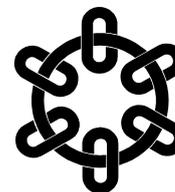
***Principle 4:*** *Consider effects throughout the due process (refer to paragraph 4.2).*

*If you disagree with the proposed set of key principles, or would like the principles to be amended, please provide an alternative set of key principles and please explain why you favour that alternative set.*

The proposed principles might be appropriate; however we think that such principles should be developed at a later stage. When other key principles are in place, such as objective, definition of effects and the extent of effects analysis, we find it appropriate to discuss relevant methods of how to perform effect analysis.

#### **SECTION 5: The practicalities of performing effects analysis**

15. *Do you agree that the process that a standard setter should apply for validating the intended outcomes of a proposed accounting standard or amendment should include steps “a” to “d” of paragraph 5.2?*



*If you disagree with the proposed steps, or would like the steps to be amended, please provide alternative steps and please explain why you favour those alternative steps.*

We agree that step a) to d) might be appropriate. However, as noted in question 14 we find it too early to conclude on which methods should be used.

16. *Do you agree that the process that a standard setter should apply for identifying and assessing the effects of a proposed accounting standard or amendment should include steps “a” to “f” of paragraph 5.3?*

*If you disagree with the proposed steps, or would like the steps to be amended, please provide alternative steps and please explain why you favour those alternative steps.*

We agree that step a) to f) might be appropriate. However, as noted in question 14 we find it too early to conclude on which methods that should be used. We also think that the steps presented should be guidelines for the standard setter and not requirements that has to be fulfilled at every stage of the effects analysis.

17. *Do you agree that the process that a standard setter should apply for identifying options for the proposed accounting standard or amendment (options for achieving the intended outcomes of the proposed accounting standard or amendment), and for choosing the preferred option, should include steps “a” to “f” of paragraph 5.4?*

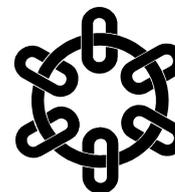
*If you disagree with the proposed steps, or would like the steps to be amended, please provide alternative steps and please explain why you favour those alternative steps.*

We are concerned that these requirements are too extensive and potential significantly delay demanded and necessary developments of accounting standards. However, as noted in question 14 we find it too early to conclude on which methods should be used.

18. *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)?*

National standard setters have unequal amounts of resources to undertake such activities. We recommend that this question is evaluated during the process.

## **SECTION 6: Next steps**



19. *Do you agree that the next steps in developing and, subject to the results of public consultation, implementing the proposals put forward in this paper should include steps “a” and “b” of paragraph 6.2?*

*If you disagree with the proposed next steps, or would like there to be additional next steps, please provide alternative and/ or additional steps and please explain why you consider that those alternative and/ or additional next steps are appropriate.*

If step “a” of paragraph 6.2 is meant to include field testing by the EFRAG or European national standard setters without involving the IASB, we disagree. We believe that the proposals as amended through this public consultation should be forwarded to the IASB for further consideration.