EFRAG

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To whom it may concern:

I wish to thank the UK standard setter, the Accounting Standards Board (ASB) and the European Financial Reporting Advisory Group (EFRAG) for this opportunity to comment on the discussion paper entitled, C*onsidering the Effects of Accounting Standards.* The views contained in this paper are strictly my own and do not represent any views or opinions held by any employer or organization that I might be affiliated with and/or fellow colleagues or associates.

> ñThe role of financial reporting is to provide information that assists in assessing the relative returns and risks of various investment opportunities. Business managers, investors, and creditors make those decisions: **it is not a function of financial reporting to try to determine or influence their outcome.** No matter how well intentioned the standard-setter may be, **if information is designed to indicate that investment in a particular enterprise involves less risk than it actually does, or designed to encourage investment** in a particular segment of the economy, **financial reporting will suffer an irreparable loss of credibility.**ñ[1] (emphasis added)

As a certified public accountant with over 26 years of experience in both the preparation and audit of financial information, especially in the government and not for profit environments, I would like to share my views from that professional experience base.

Society views and expects accountants to be honest brokers in all the work we are associated with. This includes, but is not limited to the identification, preparation, presentation, and communication of an entityÕs economic transactions and financial position. To that end, society expects us to uphold

[1] Donald Kirk, FASB Chairman. *FASB Viewpoint*, November 9, 1979, pp.2-3.

the highest standards of integrity, objectivity, and truthfulness. The same way that a referee is expected to judge a football game, the accountant is expected to judge the game of business. We are expected to exercise independent judgment in the conduct of our duties and not show deference or favoritism to any one party in particular. Society also expects us not to be unduly influenced by external parties. If a referee showed favoritism to any one team or player in particular or deferred to the cries of the crowd, I submit that the very crowd itself would call for their immediate removal.

Drawing upon another analogy, counselors or psychologists who study human behavior understand that they are not to directly influence human behavior of their patients. As such, they take precautions in ensuring that their consultation allows the patient to best to determine what courses of action to take. To that end, counselors make sure to probe and draw out all necessary facts and information from the patient for the patientõs own use. It is important to note that the patient might try to suppress this information for various reasons but it is the counselorõs duty and obligation to help identify and explore these matters.

The four notable quotations expressed in the preface to your paper remind us of the importance and the balance that we accountants are entrusted with. Jonathan Wienerõs quotation clearly states that the decision itself must be an exercise of judgment by a public official and that that public policy judgment is best made with a comparison of consequences. It is important to note that Mr. Wiener reminds us that this is a decision made by a public official, not a standard setter. Furthermore, it is this public official who was responsible to perform a careful comparison of consequences.

Both Oscar Gellein and Stephen Zeff Remind us that we accountants should not work in a vacuum and that we should be mindful of the consequences of our work. However, the same can be said and required of our public officials. They should be mindful of the consequences of <u>their</u> political decisions.

The last quotation from the financial crisis advisory group calls for prudence in accounting standards by enhancing transparency, reducing complexity and restoring confidence. In my opinion, adopting the proposals within this discussion paper would in essence reduce transparency, add unnecessary administrative burdens and costs, increase complexity and destroy public confidence in the public accounting profession.

Serving as an accountant, auditor and consultant to numerous elected and public officials over the years, I can most assuredly say that those who in particular hold positions of what they consider to be of great power or authority, are quick to avoid responsibility while manipulating others in order to shroud and hide their own actions which on occasion are even criminal in nature. We should not ignore this truth because it sounds Machiavellian or does not fit neat into politically correct thinking.

This is an undeniable truth that also represents a consequence of our work ï that some of those who claim to serve the public interest are in fact truly only serving private interests and they will do whatever they can to unduly influence the accountant to behave in a way so that their self serving actions might in effect be hidden from the public.

At a fairly recent public hearing I attended, an elected representative blamed the laying off of police and firefighters on a U.S. GASB requirement to show certain post-retirement benefit liabilities on the balance sheet. This official went on to chide the accounting profession admonishing it for not considering the consequences of its ñivory tower edicts.ò Stepping back, one can clearly see that the laying off of these public servants was not at all a result of the GASB pronouncement. GASB did not require or force the Government to make post-retirement commitments to its employees nor did it require funding for those commitments ï it only required display and disclosure.

The elected officials and public servants were the ones responsible for not adequately budgeting or funding this governmentõs operations. The layoffs were a consequence of their actions and not the accounting standard.

In this case the accounting standard did its job ï provided information for the decision maker. However, it was a decision that the decision maker did not want to take responsibility for.

As sunshine is said to be the best disinfectant, so is the unencumbered communication of financial and non-financial information. Accountants should be free flowing conduits of information and not filters or barriers manipulated and used by those with hidden agendas contrary to the public they serve.

There are self-serving elected officials and public servants who desperately want the freedom to make decisions unaccompanied by the responsibility of the ensuing consequences. Accountants are called to uphold the public trust and as such, we must maintain and guard our independence and hold management responsible for its decision making and related consequences by not taking this on ourselves our assuming it as our responsibility.

Sincerely,

Attachment: Domenic N. Savini, CPA, CMA Detailed Comments

QUESTIONS FOR RESPONDENTS

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.

Answer – No.

There is no need to define "effects analysis" if a standard-setter follows adequate due process procedures.

It would be a mistake to define this term inasmuch as it would seriously undermine the standard-setting process and cause a significant amount of confusion, wasted resources and diminished or lost credibility in the standards themselves. Due process, if properly conducted, will allow all interested parties to bring their concerns to the table so that a proposed accounting rule could be evaluated in light of potential outcomes. Furthermore, merely identifying the potential effects in no way ascertains the likelihood of occurrence and places the standard-setter in a position to speculate about the future using ñevidenceò that might be biased or non-representative of the overall population. Instead, standard-setters should rely on their judgment, to include any and all respondent comments, following the core principles embodied in their conceptual framework. To do anything else would draw into question the neutrality and objectivity of the standards and related information.

Specific concerns with the proposed wording include:

i. ñsystematic processò ï there is no thorough explanation (Page 6 of the slide-show merely shows a graphical illustration subject to interpretation/speculation) as to how this would be incorporated into a standard-settersô existing due process procedures. Is this process on par, subordinate or superior to due process?

- ❐ Systematic infers a degree of rigidity that might not be practical given the circumstances. For example, another financial-type crisis might require a fairly quick or instant turn-around time that would preclude the type of proposed evidence gathering from occurring and necessitating a Board employing its best available (unspecified) human judgment.

- ❐ Systematic infers additional bureaucracy via the addition of systems and procedures that are in addition to the customary due process procedures now in use.

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- Can the accounting profession absorb additional bureaucracy in standard-setting?
- How can process integrity be assured and Board deliberations kept free from lobbying or undue influence?

ii. ñconsidering the effectsò ï apart from the politicization issues this raises, the impracticality of attempting to address the impact of potential variables seems subject to question. Since accounting information could lead to societal impacts beyond those that are economic or financial, it would seem that experts from other fields or disciplines would be needed to address these potential impacts. For example, a proposal to have governments report deferred maintenance/capital asset information could lead to quality of life issues literally touching local communities. How is a standard-setter supposed to satisfactorily accomplish this requirement without the assistance of specialists? This would undoubtedly be quite an undertaking requiring a multi-disciplinary approach. Furthermore, the discussion paper does not seem to clearly set parameters. For example, where are the boundaries to isolate direct impacts from those which are indirect and subject to diverse variables or drivers?

iii. ñdeveloped and implementedòï this places the burden squarely on the backs of the standard-setters and not management. Communicating the effect of the standards should begin with managementôs responsibility (in consultation with its directors and/or auditors) and then translate into a due process position. Although some standard-setters routinely (re)evaluate their standards, they should not be put into the position of (1) assuming a managerial responsibility, (2) performing or being perceived as performing quasi regulatory functions, and (3) going beyond their area of expertise. In any event, it seems that the standard setter could lose or jeopardize his/her independence by engaging in the proposed effects analysis.

iv. An alternative definition:

"effects analysis" should be defined, for the purposes of accounting standard setting, as "a ~~systematic~~ complementary component of due process procedures for considering the potential effects of accounting standards as those standards are developed. Effects analysis recognizes the use of unspecified human judgment in the development

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of accounting standards and is not considered to be either an estimate, projection, or forecast of future events.~~ and implemented~~ "

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.

Answer – No (not as proposed).

This entire notion seems redundant and duplicative to already existing due process procedures.

How are standard-setters supposed to decide which body of evidence to rely on? If not properly executed, this undoubtedly politicizes the entire standard-setting process and invites an overly burdensome amount of administration that few standard-setters can either afford or absorb given current resources.

Furthermore, even if resources were not an issue, to what extent would standard-setters need to corroborate the data? How would data integrity be assured? Would it need to be cross-checked with regulators? Will it need to be continually updated and refreshed so that Board decisions are made using the most current, accurate and complete data? Will respondents need to certify to the accuracy of the data under penalties of perjury? What about conflicting data or results?

It would be more efficient, timely and cost effective for global standard-setters to work together in developing uniform guidelines. Such guidelines would ensure the credibility (e.g., minimizing perceptions of politicization or bending to the will of corporate influences) and representational faithfulness of the standards while ensuring that impacts, economic or otherwise, are not ignored.

Furthermore, standard-setters should be asked to re-double their efforts in communication and out reach.

3) Do you agree that the standard setter should be responsible for performing affects 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.

Answer – No.

Standard-setters should be responsible for considering effects of their accounting pronouncements whether they are developed through research or inquiry or brought to their attention by due process procedures.

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The standard-setter should not be placed in a position to speculate about the future.

Standard-setters should not be responsible for performing effects analysis since it is beyond their area of expertise and subjects the standard-setting process to hazards from lobbying and politicization.

With this being said, it would be unreasonable and counter-productive to exclude information due to its affiliation since such evidence would presumably come from experts in a select field or discipline or from practitioners, preparers, and/or users all of whom have a direct stake in the final outcome. It is clear that standard-setters should use this information however, caution and prudence must be exercised so that underlying motives or biases are identified, discussed and presented to the Board.

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)?:

<u>Answer – Yes for A-D</u>

<u>Answer – No for E.</u>

2 years is insufficient as a minimum base-line.

What are the definitions for major or minor amendments?

Requiring and fixing a date-certain post implementation invites manipulation.

> *E. For new accounting standards and major amendments[2], 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[3], 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.*

[2] What are the definitions for major or minor amendments?ò

[3] 2 years is insufficient as a minimum base-line. First, in terms of statistics or probability analysis a minimum 3 plot points are needed. Second, trends cannot be inferred from a limited number of periods. Third, business procedures, processes and systems might not be transaction compliant in a brief 2 year window resulting in "badò data being generated for analysis.

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Effects should be considered throughout the life-cycle of a project. However, I do not agree with requirement E. To require and fix a date-certain post implementation review seriously undermines the standard-setting process. Such a process could invite manipulation of accounting records and financial reporting in order to justify a desired outcome by those affected.

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.

Answer – No.

The standard-setter should not be placed in a position to speculate about the future especially if using "evidence" that might be biased or non-representative of the overall population.

How do we ensure that we "don't make a mountain out of a mole hill?

As previously stated, due process, if properly conducted, will allow all interested parties to bring their concerns to the table so that a proposed accounting rule could be evaluated in light of potential outcomes. Furthermore, how does a standard-setter define and identify the likelihood of potential effects? The standard-setter should not be placed in a position to speculate about the future especially if using "evidence" that might be biased or non-representative of the overall population. Instead, standard-setters should rely on their judgment, to include any and all respondent comments, following the core principles embodied in their conceptual framework. To do anything else would draw into question the neutrality and objectivity of the standards and related information.

Naturally one needs to consider proportion or materiality when undertaking a new standard or amendment. Generally speaking, standards are meant to be applied to material transactions or events. So, how does "effects analysis" ensure that immaterial impacts (which will never occur) are not erroneously included? Put more simply, how does one ensure that we *"don't make a mountain out of a mole hill?"* Also as mentioned earlier, to require and fix a date-certain post implementation review seriously undermines the standard and could lead to financial statement manipulation.

Lastly, requiring effects analysis on an amendment seems to make little sense since presumably the amendment is the outcome of matters either being brought to the attention of the standard-setter or the standard-setter recognizing that a change is in order.

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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.

Answer – No.

There is no need to define “effects analysis” if a standard-setter follows adequate due process procedures.

Standard-setters should rely on (unspecified or undefined) human judgment including all respondent comments and following their conceptual framework.

It would be a mistake to define this term inasmuch as it would seriously undermine the standard-setting process and cause a significant amount of confusion, wasted resources and diminished or lost credibility in the standards themselves. Due process, if properly conducted, will allow all interested parties to bring their concerns to the table so that a proposed accounting rule could be evaluated in light of potential outcomes. Standard-setters should rely on their unspecified human judgment, to include any and all respondent comments, following the core principles embodied in their conceptual framework. To do anything else would draw into question the neutrality and objectivity of the standards and related information.

An alternative definition for *“effects”:*

> *“potential consequences that some believe might result~~flow, or are likely to flow,~~ from the implementation of an accounting standard, referenced against the objective of ~~serving~~[4] ~~the public~~[5] ~~interest~~ representational faithfulness by contributing positively to delivering improved financial reporting “*

[4] Isn’t the over-riding objective to provide financial statements that are “fairly” presented and that can be faithfully relied upon?

[5] I thought that the IASB has taken a position that its primary users are investors. If so, it would be misleading to infer public interest since that would encompass more than investors.

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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.

<u>Answer – Yes.</u>

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.

<u>Answer – No.</u>

It is impractical to try and identify “all” macro and micro economic effects.

This requires an expensive and time-consuming multi-disciplinary approach.

Boundaries should be set to isolate direct and indirect impacts.

First, it seems highly unlikely that ñallò macro and micro economic effects or variables can be identified. Second, it is commonly understood that economists are not the best at predicting or necessarily determining the consequences of financial or economic decisions. If they were, or if there was at least some common understanding among them, governments would have been able to avoid this most recent global financial crisis.

In my opinion, the scope should be limited to those stakeholders who have an interest in the subject matter at-hand as opposed to some theoretical concept or model. This would undoubtedly be quite an undertaking requiring a multi-disciplinary approach. Furthermore, the discussion paper does not seem to clearly set parameters. For example, where are the boundaries to isolate direct impacts from those which are indirect and subject to diverse variables?

<u>An alternative definition for ñscopeò</u>

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"should include natural[6], probable and material ~~all~~ effects identified by interested stakeholders during due process. ~~, both "micro-economic effects" and "macro-economic effects."~~

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.

Answer – No.

Communicating only with relevant bodies might impair integrity and professional ethics.

A regulator or government body may not be able to answer a standard-setter's inquiry for precedent-setting issues.

Two issues are raised here. First, is the accounting standard-setter subordinating his/her judgment to an external party especially if it excludes advice and consultation from "non-relevant" but nonetheless interested parties? It seems questionable to me that a standard-setter would need to seek and be limited to an official consult before promulgating a standard. What ever happened to public hearings where all constituent concerns could be heard and considered?

Second, this may never work in practice for several reasons. That is, to assume that a regulator or government body will answer a standard-setter's inquiry in a timely manner presupposes that they have the ability and desire to do so. Both seem like unlikely assumptions to make. A regulator or government body would probably never circumvent their own due process procedures. Also, they will be unwilling to answer a question or address a specific scenario since it could prejudice them and affect any future decisions they might need to entertain.

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

[6] Natural in the sense that excessive speculation or conjecture is not required to support the (probable) outcome

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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.

<u>Answer – No.</u>

I disagree on both premises. First, as previously stated, ñeffectsô should not be defined. Second, defining by reference to an objective other than what is contained in a standard-setterõs conceptual framework seriously undermines the professionõs credibility especially in regards to integrity.

Relating ñeffectsô to *"the interests of investors, other participants in the world's capital markets and other users of financial information‟* ô creates an extremely week and some might say capricious foundation to base an accounting standard on. Specifically, interests of investors and capital marketõs shift daily and some might argue are mercurial in nature (e.g. short sellers). As such, why would we set standards based on shifting criteria? The average investor or small developing nation will never be as influential as large institutions or governments are, as such, the objectives of standard-setting should be directly linked to concepts and principles that do not change over time, are not easily influenced by the large global power brokers and lastly, which benefit society as a whole.

It would be best to base the objectives on concepts such as representational faithfulness, honesty, neutrality and objectivity. Such concepts serve the public-at-large while maintaining credibility to the standard-setting process.

11) Do you agree with the following clarifications of the term ñeffects‟? If you do not agree with any of the clarifications of the term ñeffects‟, which one(s) do you disagree with and why? Please explain the reasons for your answer.

a) Effects can be ñpositive‟, ñnegative‟ or ñneutral‟, 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);

<u>Answer – No.</u>

What happens when you have competing public interests? What is positive for an executive whose bonus is tied to short-term profits might be negative to an investor, creditor or supplier. Standard-setters should not be placed in the position of choosing sides.

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b) Effects analysis will usually involve assessing the ñmarginal effects‟ of an accounting standard or amendment, relative to the status quo that existed before its introduction, so the term ñeffects‟ should, in general, be interpreted to refer to ñmarginal effects‟ (paragraph 3.24);

Answer – No.

Who is to say that the status-quo is in compliance or accord with a standard-setterós conceptual framework? Once it is determined that the status-quo is in fact based on concepts and principles consistent with our conceptual framework, then ñmarginal effectsò analysis is appropriate. Employing ñmarginal analysisò without such confirmation would undermine our credibility as standard-setters.

c) The term ñeffects‟ can be used to refer to both ñone-off effects‟ and ñongoing effects‟ (paragraph 3.26); and

Answer – Yes.

d) The term ñeffects‟ can be used to refer to both ñanticipated effects‟ and ñactual effects‟, depending on what stage the effects analysis is at ï before, during or after implementation of the new accounting standard or amendment (paragraph 3.28).

Answer – No.

The standard-setter should not be placed in a position to speculate about the future and then later justify variances.

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

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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

Answer – No.

At a conference in Zurich several years ago Sir David Tweedie basically said that standards should not be based on exceptions. Standard-setters should not be put in the position of assigning weights. This very notion again opens the door for the politicization of the standard-setting process. Understanding who is affected and how is certainly important, but this all falls under the *unspecified human judgment* I spoke about earlier. Each Board member will synthesize his/her understanding and then via a process of collaboration and dialogue, articulate their views and hopefully ultimately reach consensus. Do we honestly think that by assigning weights a Board memberõs opinion might change? If you say yes, then you make the point that undue lobbying will certainly attempt to manipulate the weighting process. If you say no, then you acknowledge that the Board member will rely on his or her own intuition and experience in connection with respondent comments. In either case, assigning weights will not add to the process but subject it to lobbying and lost credibility since some will try to take an exception and extrapolate it beyond reason.

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.

Answer – No.

Apart from the politicization issues this brings up, the impracticality of attempting to address the impact of ñrankingò or prioritizing seems subject to question. Since accounting information could lead to societal impacts beyond those that are economic or financial, it would seem that experts from other fields or disciplines would be needed to address these potential impacts. For example, a proposal to have governments report deferred maintenance/capital asset information could lead to quality of life issues such as whether or not funding would be sufficient for levee reconstruction and if so, how this would affect the local communities? This would be quite an undertaking requiring a multi-disciplinary approach.

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.

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<u>Answer – No.</u>

There is no thorough explanation as how this would be incorporated into a standard-settersô existing due process procedures. Is this process on par, subordinate or superior to due process? As a result, it is difficult to answer this question.

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.

<u>Answer – No to Principle 1 and Yes to Principles 2 – 4 (as modified).</u>

Regardless of whether or not my answer to question 13 would change, I do not believe that a standard-setter should explain intended outcomes since I do not believe they should be responsible for establishing what those outcomes are in the first place; Principle 1. The more I think about this proposal the more Iõm concerned that should this proposal be adopted, it will lead to a results oriented approach tantamount to what we accountantõs refer to as ŏpluggingö. What ever happened to ŏneutralityö or ŏobjectivityö? If a standard-setter has a vested interest in an outcome, who is to say that they will not be tempted to shade the results of the actuals to minimize variances or gaps?

However, given my earlier answers, generally speaking principles 2, 3 and 4 are things that standard-setters should be following in their due process procedures.

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.

<u>Answer – No.</u>

As previously stated above in answer 14, a standard-setter should not be required to validate intended outcomes which they might have a vested interest in. Again, this defies the notion of neutrality and intellectual honesty. Furthermore, it feeds into the politicization of accounting.

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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.

Answer – See Below.

Step a) – Yes.

Step b) – No. The standard setter should NOT split the effects into the following categories (as appropriate), in order to facilitate their assessment and communication: Positive, negative and neutral effects (refer to paragraph 3.23); Marginal effects and absolute effects (refer to paragraphs 3.24 and 3.25); One-off effects and ongoing effects (refer to paragraphs 3.26 and 3.27); and

Anticipated effects and actual effects (refer to paragraphs 3.28 and 3.29).

Step c) – No. However, the standard setter should apply its judgment ~~to identify~~in analyzing the ďncidence‟ and ňature‟ of the effects which respondents provide during the due process period.

Step d) – No. The standard setter should apply its judgment in analyzing ~~to prioritise~~ the effects. However, ranking ~~, possibly by ňanking‟~~ effects ~~them~~ in terms of their ňikelihood‟ of occurring and the magnitude of the ňconsequences‟ ~~if they do occur~~fall outside the standard-settersô area of expertise and more importantly, subject the process to undue external influence undermining the credibility of the process and standard itself.

Step e) – Yes. The provisional analysis of the respondent comments performed by the standard setter is subsequently exposed for public consultation, so that preparers, users and other constituents can validate or propose amendments ~~to the assumptions that the standard setter made~~.

Step f) – No. Identifying and assessing effects is inherently complex, laborious and time-consuming in addition to being a multi-disciplinary process which is highly subjective ~~difficult~~ and judgmental. As a result, ~~, so~~ standard setters should, in general, apply ~~a~~ routine and transparent due process procedures so that the community-at-large can ~~for~~ identify~~ing~~ and assess~~ing~~ effects. , Standard-setters should not be expected to generate evidence. To the contrary, they should include and engage ~~which should be supported by robust evidence~~

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~~gathering, including engaging with~~ constituents and respond~~ing~~ to their views concerning effects. ~~Refer to the preliminary view (paragraph 4.2) concerning the principles of effects analysis.~~

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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.

Step a) – Yes.

Step b) – No. For each identified option, the standard setter should identify the "effect adjustors", which are the measures, tests, consultation, research and other steps or aspects that the standard setter proposes to put in place to: Decrease the likelihood that the negative effects will frustrate the successful achievement of the intended outcomes of the proposed accounting standard or amendment; and Increase the likelihood that the positive effects will support the successful achievement of the intended outcomes of the proposed accounting standard or amendment.

An effect adjustor is often an action which the standard setter is to implement, but it should be noted that an effect adjustor can be an action for the standard setter to communicate with a 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 (refer to paragraphs 3.16 to 3.17).

Step c) – No. For each identified option, the standard setter should apply its judgment to prioritise the effects, possibly by "ranking" them in terms of their "residual likelihood" of occurring and the magnitude of the "residual consequences" if they do occur (refer to paragraphs 3.32 and 3.33). The "residual likelihood" and "residual consequences" are, respectively, the "likelihood" and "consequences" (refer to "d" in paragraph 5.3) once they have been modified to take into account the specific option under consideration and the effect adjustors that the standard setter proposes to put in place for that option.48

Step d) – No. The standard setter should, at a very simplistic and theoretical level, select its preferred option to be the one which gives rise to the greatest number of higher-prioritised positive effects and the lowest number of higher-prioritised negative effects (whilst also taking into account lower-prioritised effects where they, in aggregate, give rise to a higher-prioritised effect). In practice, however, the standard setter should also consider the matters listed below in determining its preferred option. It should not be assumed that this is an exhaustive list.

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The incidence and nature of the higher-prioritised positive and negative effects (refer to paragraphs 3.30 and 3.31). The adequacy, for each identified option, of the evidence gathered about the effects and their prioritisation. Whether there is a cost-effective alternative option which is less costly but only slightly less effective. The standard setter objective of serving the public interest by contributing positively to delivering improved financial reporting. The standard setter should clearly document which option is preferred, and why. A deeper analysis of the effects, effect adjustors and prioritizations should then be performed for this preferred option.

Step e) – Yes The provisional analysis performed by the standard setter is subsequently exposed for public consultation, so that preparers, users and other constituents can validate or propose amendments to the assumptions that the standard setter made.

Step c) – No. Identifying and assessing options is inherently difficult and judgmental, so standard setters should, in general, apply a routine and transparent process for identifying and assessing options, which should be supported by robust evidence gathering, including engaging with constituents and responding to their views concerning options. Refer to the preliminary view (paragraph 4.2) concerning the principles of effects analysis.

18) Do you agree that the IASB should, to some degree, delegate[7] to national standard setters and similar institutions some[8] 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)?

Answer – No to delegation.

Delegating to national standard-setters might adversely impact independence and credibility.

There is really no way to properly answer this question without first understanding (1) what specific data-gathering activities the national standard-setters would engage in and (2) if this would be a formal delegation of authority and if so, how it would impact the overall due process. However, even if there was a clear understanding as to the

[7] Would this be a formal delegation of authority?

[8] There is really no way to properly answer this question without defining what specific data-gathering activities they would engage in.

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scope and limitations of their duties, this might adversely impact the Boardôs independence and credibility. Such an undefined and open-ended process seems to invite politicization and lobbying.

One of the most important things to keep in mind is that many financial statement users rely on a Boardôs independent decision making ability. Such financial statements are deemed to be ñfair and trueò because the GAAP which they are based on was established in a fair manner without undue influence tilting the results one way or another. Allowing a national standard-setter to participate in due process and possibly even perform some limited data-gathering is fine only if such ñevidenceò is not given greater weight or valued than other forms of evidence.

Delegating to national standard-setters is not reflective of the global environment we are operating in and invites numerous and possibly even conflicting "carve-out" provisions.

Since most, if not all industries are global and many firms are international as well, how does this make sense? Why would a standard setter in a particular country have greater insight or be allowed to gather evidence on issues that are international in scope? This seems counter intuitive. Nations still look to protect their industries and economic interests and as such, a more holistic approach to gathering data would seem appropriate. Such an approach would consider the global issues at-hand and not merely the parochial ones associated with one particular country. Additionally, the proposed process would invite nations lobbying one another and the IASB for exceptions.

Delegating to national standard-setters places them in a position to be directly lobbied or influenced more than they are now.

For the reasons cited above, a national standard-setter who is gathering evidence on a proposed rule or accounting subject will be viewed as a lobbying target. How does the IASB intend to protect itself from such undue influence? This aspect of the proposed process seems to be extremely problematic.

<u>Answer – Yes to these bodies playing a more active part in the due process.</u>

First, I would like to note that there is a big difference between playing a more active part in due process and have a delegation to collect data. No one would ever argue against more active involvement however, it is the nature of that involvement (i.e., data gathering) that must be properly understood and not viewed by other interested parties as the IASB playing ñfavoriteò.

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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.

Answer – No to Step a.

This step should not occur before the process in step 6.2b is conducted; sharing knowledge.

Answer – Yes to Step b - modified.

It would be more efficient, timely and cost effective for global standard-setters to work together in developing uniform guidelines. Such guidelines would ensure the credibility (e.g., minimizing perceptions of politicization or bending to the will of corporate influences) and representational faithfulness of the standards while ensuring that impacts, economic or otherwise, are not ignored.

I would propose modifying this step by including standard-setters should be asked to re-double their efforts in communication and outreach encouraging users/preparers/investors, etc., to participate in the IASB's due process procedures.

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