

31 August 2011

Ms. Françoise Flores  
Chairman of European Financial Reporting Advisory Group  
35 Square de Meeûs  
1000 Brussels  
Belgium

*(By email)*

Dear Françoise

## **RESPONSE TO THE EFRAG DISCUSSION PAPER ON CONSIDERING THE EFFECTS OF ACCOUNTING STANDARDS**

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Discussion Paper (DP) on Considering the Effects of Accounting Standards, issued by the European Financial Reporting Advisory Group (EFRAG) in January 2011.

### **General**

First and foremost, we would like to commend the EFRAG's pro-activity and commitment to seek practical solutions to improve the quality of financial information and to enhance the transparency and accountability of standards setting. We believe that 'effects analysis' is an essential element of the standards setting process and note that it has been duly incorporated into the IASB's Due Process Handbook<sup>1</sup>. However, we are of the view that certain aspects of the IASB's process for the conduct of effects analysis could be further enhanced. To this end, we are generally supportive of the proposals set out in the DP although we believe further clarification and refinement in the following areas would be useful:

- **The objectives of performing an effects analysis.** We believe that the objective of effects analysis should not detract from the fundamental objective of financial reporting as set out in the IASB's *Conceptual Framework*, which is to provide 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. The process of effects analysis and the associated concepts of 'effects' should therefore be consistent with and not erode these objectives. The focus of the IASB should still ultimately be the development of high quality accounting standards that reflect the economic substance of the underlying transactions, and not other objectives such as financial stability.

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<sup>1</sup> IASB Due Process Handbook, *paragraph 109-110*.

- **The organisation responsible for conducting effects analysis.** We believe that the IASB should take ownership of integrating the conduct of effects analysis into its standards setting due process, and that the role of the national standards setters should be to provide support to the IASB in understanding the effects of the standards in their individual jurisdictions. However, we note that in some jurisdictions, the national standards setters or other regulatory bodies could be given the mandate to perform the effects analysis.

Our specific comments on the DP are as follows:

## **Section 2: The process of ‘effects analysis’**

### Integration of effects analysis into standard setting due process

While the conduct of effects analysis is already incorporated into the IASB’s Due Process Handbook, further refinements would be useful to better integrate (or further embed) it into the IASB’s standard setting due process to enhance the deliberation process as standards are developed, revised and implemented, so as to contribute positively to delivering improved financial reporting.

### Depth of work for effects analysis

We believe that there should always be sufficient time for thorough consultation and analysis and hence, we strongly believe that sensitivity of the issue and/or time constraint should not impact the depth of the analysis and downscale the required work on effects analysis.

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

### Definition of ‘effects’ and consideration of micro-economic and macro-economic effects in effects analysis

We believe that ‘effects’ should be defined in relation to the objective of financial reporting in the *Conceptual Framework*, and not other objectives. Accordingly, we recommend that there should be greater clarity on the limits and boundaries of what constitutes macro-economic effects to be considered, as the scope of possible macro-economic effects is very wide, ranging from financial stability impacts on entire region, regulatory and political influences, to the impact on the presentation of financial statements for specific industries. This would ensure that [the effects analysis would not be too broad in scope to the point that it impedes the timely and prompt development of high-quality accounting standards.](#)

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

### Gathering of ‘evidence’

The DP proposes a set of key principles that underpins effects analysis<sup>2</sup> which we are generally in agreement with. However, we would recommend that there could be greater clarity on the definition of “evidence” during various stages of the standard setting process. For example, evidence gathered during the early stages of standards setting would most likely be based on stakeholders’ perception (i.e. what they think would happen) while evidence collected during post-implementation stages would be based on real occurrences (i.e. hard facts and results). Different definitions of evidence that apply during the different stages of standards setting would therefore be helpful guidance for the IASB.

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

### Leadership in effects analysis and role of national standard setters

We are of the view that it would be more effective and efficient if the IASB were to take ownership of integrating effects analysis into the standards setting due process, as they are in the best position to consolidate the efforts of national standard setter and regional group partners. In this regard, we believe that IFRS Foundation Trustees should be involved in the proper formulation of effects analysis in accounting standard setting and that the formal structure should ultimately be reviewed and approved by the IFRS Foundation.

However, we do note that in certain jurisdictions, the national standard setters or some other regulatory bodies could be given the mandate to perform the effects analysis. In such situations, we believe that the IASB should work closely in partnership with these organisations to gather evidence for effects analysis.

## **Section 6: Next Steps**

Similar to our comments to Section 5, we are of the view that the IASB should take ownership of determining the next steps. Hence, we recommend that EFRAG could provide the IASB with a summary of the feedback received on this DP and the IASB could then deliberate if it would like to field-test the recommendations with a live-project, possibly in collaboration with EFRAG.

We hope that our comments will contribute to EFRAG’s discussions and deliberations. Should you require any further clarification, do contact me.

Thank you.

Yours faithfully,

Siew Luie SOH (Ms)  
Secretary  
Singapore Accounting Standards Council

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<sup>2</sup> The key principles are: (1) Explain intended outcomes; (2) Encourage input on anticipated effects; (3) Gather evidence; (4) Consider effects throughout the due process.