



## **AASB Evidence-Informed Standard-Setting Framework**

### **Objective of the AASB's Evidence-Informed Standard-Setting Framework**

1. The AASB's vision and mission are to contribute to stakeholder confidence in the Australian economy, including its capital markets, and in external reporting by:
  - (a) developing, issuing and maintaining principles-based accounting and external reporting standards and guidance, that meet user needs and enhance external reporting consistency and quality; and
  - (b) contributing to the development of a single set of accounting standards for worldwide use.
2. AASB is part of the overall regulatory framework for the financial system in Australia, with specified Commonwealth requirements. To achieve its vision, mission and strategies, the AASB's standard-setting process is based on evidence (EISSF) and consultation with stakeholders and is consistent with the IASB's research-based standard-setting process.
3. One of the strategies of AASB is to use a robust and transparent evidence-informed approach to setting standards and guidance.
4. This paper provides the principles and process for implementing the AASB's Evidence-Informed Standard-Setting Framework (EISSF) and discusses how the Framework will lead to the gathering of evidence and embedding it in AASB projects.

### **Principles of Evidence-Informed Standard-Setting Framework**

5. AASB has an evidence-informed approach to setting standards as a key enabler of its strategy for 2017-2021. The AASB's evidence-informed approach is to:
  - (a) obtain appropriate evidence for all key projects to improve the relevance and timeliness of information available to AASB for its decision-making activities; and
  - (b) encourage and/or produce research that will clarify, illuminate and provide leadership in national and international thinking on standard-setting issues.
6. This consultative and evidence informed approach is underpinned by:
  - (a) defining the issue or problem;
  - (b) identifying what might already be known and what might need to be investigated;
  - (c) exploring possible sources of information and data;
  - (d) gathering and collating relevant information and data;



- (e) rigorously and comprehensively analysing prior evidence and new data to derive meaning and understanding, including identifying and evaluating possible options, and a cost/benefit analysis of the proposed solution; and
  - (f) presenting the evidence clearly and succinctly to stakeholders.
7. Evidence and stakeholder engagement have a mutually beneficial relationship. Effective stakeholder engagement informs the development of questions for evidence gathering. Likewise, relevant and robust evidence can guide stakeholder engagement.
  8. The AASB's evidence-informed and consultative approach to standard-setting enables compliance with Commonwealth Regulatory Impact Statement (RIS) requirements, including cost-benefit analysis for key changes.<sup>1</sup>

### **Types and sources of evidence**

9. For its evidence-informed approach, AASB defines two types of evidence:
  - (a) descriptive – provides evidence of existing practice as well as identifying stakeholder views and perceptions. It may consider the extent of perceived problems, as well as stakeholder sentiment regarding perceived shortcomings or suggested improvements. Descriptive evidence includes feedback from outreach and roundtables. It may also involve rigorous identification of representative observations through surveys and questionnaires. Other descriptive research may entail the summarisation of existing databases, practices, regulatory requirements in Australia and/or internationally and systematic literature reviews; and
  - (b) explanatory – focuses on the robust demonstration of reasons why outcomes are observed or would otherwise be expected to occur. Explanatory evidence goes beyond description to identify and rigorously test explanations of why practice issues arise and/or effects of the current or proposed practice. While frequently using archival data, explanatory evidence can also be produced via laboratory experiments as well as in the form of analytical models.
10. The most appropriate form of evidence is selected on a project by project basis, depending on issues such as timing/urgency, the need for independence, the degree of contention/bias surrounding the issue and the needs of the decision-makers (i.e. AASB Members, IASB or other international regulators).
11. A narrow-scope project may make use of descriptive research such as collecting evidence from primary or secondary sources but would not necessarily warrant expending resources on obtaining explanatory evidence. An extensive or critical project involving costly outcomes is more likely to warrant explanatory evidence.

### **Implementation of EISSF**

12. The implementation of EISSF occurs through the following activities:

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<sup>1</sup> Best Practice Guide for Preparing Regulatory Impact Statements (December 2003) available at: [http://www.treasury.act.gov.au/documents/regulatory\\_impact\\_statement\\_guide.pdf](http://www.treasury.act.gov.au/documents/regulatory_impact_statement_guide.pdf)



- (a) embedding EISSF in AASB projects; and
- (b) building and maintaining strong relationships with the academic community.

### **Embedding EISSF in AASB projects**

13. AASB embeds its evidence-informed approach to domestic and international standard-setting activities as follows:

#### ***Project development phase***

14. This phase defines the problem, identifying what might already be known, and what might need to be investigated. For AASB domestic projects, the project development phase defines the standard-setting problem and includes activities aimed at understanding the specific needs of Australian stakeholders, and the broader environment to prioritise topics of interest by:
- (a) monitoring IASB's, IPSASB's and other relevant international standard setters' technical work plans;
  - (b) conducting environmental scans about relevant emerging matters;
  - (c) determine the problems that currently exists;
  - (d) understanding current practices both within Australia and internationally;
  - (e) seeking advice from members of the AASB Academic Advisory Panel, AASB Project Advisory Panels and AASB User Advisory Committee on matters of research, practical implementation issues and user needs and perspectives respectively;
  - (f) reviewing relevant existing research findings to derive meaning and understanding of the evidence that exists;
  - (g) considering important stakeholder needs from on-going engagement with a broad range of stakeholders; and
  - (h) periodic agenda consultations.

#### ***Commencing the project***

15. Once a project is commenced, the evidence-informed activities include:
- (a) determine the new evidence required for the project;
  - (b) explore possible sources of information and data;



- (c) encourage syntheses of existing knowledge and research on topics of interest by working with other standard setters/regulators and academics to prepare a concise and understandable existing evidence summary paper;
- (d) identify unanswered questions of relevance to the project, and with reference to stakeholder engagement, prioritise research questions/descriptive evidence requirements and consultation/outreach that is necessary;
- (e) for extensive and critical projects, designing the explanatory or descriptive evidence gathering required, determining whether delivered in-house or commissioned and the extent of external outreach and consultation, such as professional bodies, audit firms, FRC, IASB, IPSASB, NSS's and other stakeholders; and
- (f) for IASB and IPSASB projects AASB evaluates the benefit of:
  - undertaking and/or supporting stakeholder engagement activities to identify and understand specific Australian matters;
  - providing any known relevant research to them; and
  - commissioning or performing other specific evidence-gathering procedures.

### ***Communication and discussion of the new evidence***

- 16. Activities within communication and discussion of the new evidence would likely include:
  - (a) conducting robust Board discussions regarding progressive evidence on a topic and documenting the views of AASB concerning the evidence on which those views are informed; and
  - (b) identifying and developing thought leadership arising from evidence gathering and stakeholder engagement, and communicating to all stakeholders, particularly IASB and IPSASB.

### ***Implementation of Standards***

- 17. Once a standard or guidance is finalised, but not yet effective, the evidence is used to facilitate effective, efficient and consistent implementation of revised standards or new standards. The evidence-informed activities include identification from prior evidence gathering and stakeholder engagement the appropriate level and type of supporting implementation tools (e.g. educative webinars and FAQs, etc.) that fit the specific needs of users.

### ***Post-implementation of Standards***

- 18. Once implemented, generally, within 2-3 years of the first effective date, evidence-informed activities include:



- (a) gathering and collating relevant information and data, rigorously and comprehensively analysing prior evidence and new data to derive meaning and understanding, presenting the evidence clearly and succinctly to stakeholders;
- (b) assessing the extent to which a new or amended standard is achieving the expected benefits and any unintended consequences, preferably with explanatory evidence;
- (c) identifying and analysing implementation issues through follow-up engagement and/or evaluating the costs and benefits of addressing the issues using appropriate evidence-gathering methods (possibly collaborating with the academic community); and
- (d) assessing the need for and design of new supporting implementation tools (e.g. guidance, FAQs) informed by evidence gathered.

### **Building and maintaining strong relationships with the academic community**

19. To achieve its EISSF objective, the AASB needs strong relationships with the academic community to provide appropriate independent evidence. AASB will assist, as much as possible, the academic community in the following ways to help them achieve the “impact” they need and to be able to work collaboratively with AASB:
- (a) assist researchers with access to stakeholders to collect anecdotal evidence or conduct interviews;
  - (b) provide access to the expertise of the AASB Academic Advisory Panel;
  - (c) offer an opportunity for researchers to conduct a literature review and other AASB relevant research work from time to time;
  - (d) provide feedback on the research questions and methodology;
  - (e) publish findings of the research and provide information on published papers on the AASB website;
  - (f) support the researchers during the journal submission and review stage;
  - (g) support researchers on AASB relevant external grant applications;
  - (h) work closely with researchers through the entire process of the AASB Research Forums;
  - (i) provide researchers with an opportunity to present to the AASB Board or other standard-setting organisations as and when appropriate; and
  - (j) provide evidence of AASB related impact for their research.