'Back to the Future'

Pat Finnegan, a member of the IASB, explains the IASB's 2015 Agenda Consultation and the importance of investor involvement.

You remember the line in the 1985 movie, 'Back to the Future' when Doc (Christopher Lloyd) exclaims to Marty McFly (Michael J. Fox), 'Where we're going, we don't need roads.' While Doc was thinking about time travel in which conventional roads—or highways—are unnecessary, another road or highway that most of us would have considered to be science fiction in 1985 was just around the corner—the 'Information Superhighway'. In fact, by 1985, the Internet was already open to commercial traffic. Since then, the Internet has changed our world by virtue of its ability to connect life and ideas across the globe. Information of all kinds that might have required hours, weeks, or even months to access and analyse, can now be found in seconds—and it is precisely relevant to our needs.

What should be the role and agenda of the IASB in the future—in both the near and long term?

The Internet is a great example of how everyone benefits from adopting the same, single set of high quality standards. Today, International Financial Reporting Standards (IFRS) are fulfilling a similar function in the world of financial reporting. Our Standards guide the collection and collation of data used to prepare financial information. That information is intended to help bring transparency, accountability and efficiency to financial markets. On a more detailed level, our Standards are designed to create financial information that helps investors, lenders and other creditors to assess a business's prospects for future net cash flows.

How do you see the future?

What should be the role and agenda of the IASB in the future—in both the near and long term? What should be the nature, format and content of financial statements for businesses and how should those statements be accessible? What kind of accounting standards is needed in such a world? What are the most important topics to be addressed? Just as some developments in the world of data communications seemed imaginary in 1985, the potential answers to these questions may require us to imagine the world of accounting standard-setting and financial reporting very differently from our experience today.

As part of their day job, investors regularly seek to uncover the most attractive investment opportunities. This is why I believe that the IASB's recent Request for Views: 2015 *Agenda Consultation*–which asks stakeholders to help identify the most pressing areas for our future work agenda–is important. This is a great opportunity for investors to help shape the landscape of financial reporting. One of the most effective ways investors can seize that opportunity is to provide feedback about the content of our research and development pipeline. This will help us balance our resources and capabilities to address the priorities of the investment community.

How does this fit in with the work that we do?

The IASB's approach to standard-setting has evolved significantly in recent years. This has been a direct response to feedback from our stakeholders, who want the standard-setting process to be more clearly based on evidence of a problem or a gap in information. Our new approach divides our work streams into three categories—research, Standards-level development, and maintenance and interpretation. We refer to this new approach as 'evidence-informed decision-making.'

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In considering whether to start a research project, the IASB decides whether there is a possibility that the research has the potential to graduate to a Standards-level project. As with any graduation process, the reality is that not all research will result in such a project. This is where your input is valuable—in helping us to decide what should be on the research agenda, what should possibly be removed, and the related priority within the research programme.

The threshold to reach a Standards-level project is and should be very high. In making the decision to undertake a Standards-level project, we consider a variety of factors, including:

1. whether there is currently a deficiency in the way particular types of transactions or activities are reported;
2. whether the issues are prevalent across jurisdictions; and
3. whether the issues are particularly acute.

Investor feedback from prior consultations

An area that investors identified to be of great importance during our 2011–2012 Agenda Consultation was Financial Statement Presentation (FSP). Following outreach and deliberations on a Discussion Paper dealing with FSP between 2008–2010, the IASB concluded that it wanted to conduct more extensive analysis about the expected benefits and costs related to new presentation concepts that would have significant implications for the look and feel of financial statements.

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The IASB also considered whether the introduction of new presentation concepts before the completion of certain major Standards-level projects (revenue recognition, financial instruments, and lease accounting) might present significant challenges for preparers and users. Now that those major projects are completed or substantially completed, we are beginning to re-examine some of the topics that were previously discussed in the FSP project.

As a first step we have decided to separate many of the concepts from the prior FSP project into two new projects: *Primary Financial Statements* and *Principles of Disclosure* to make the research and development more effective and relevant to the concerns of preparers and users, alike.

We know that both of these projects are of great interest to investors and creditors. However, if there are specific topics or aspects of financial statement presentation or disclosure you believe should be a priority, we want to know. A complete list of all of the projects in our research programme with a brief description of each is in **Figure 1**.

Figure 1.

Project	Description
Primary Financial Statements (previously Performance Reporting)	This project will examine the purpose, structure and content of the primary financial statements (balance sheet, statement of profit or loss, statement of cash flows and statement of changes in equity). It will also consider issues about reporting financial performance.
Principles of Disclosure	This project aims to improve the principles for determining the basic structure and content of financial statements and the related disclosures.
Discount Rates	Different discount rates are used in different accounting standards. This project will assess why these differences exist, their effects, and whether they can or should be resolved
Goodwill and Impairment	This project discusses how to address issues we've heard about in the existing accounting for business combinations. It considers: (a) whether changes should be made to the existing impairment test for goodwill and other non-current, non-financial assets; (b) the extent to which other intangible assets should be separated from goodwill; and (c) whether goodwill should be amortised.
Income Taxes	The IASB has received feedback that questions the decision-usefulness of some of the information provided by current income tax accounting requirements. This project will analyse such feedback and further review the accounting requirements to determine what next steps, if any, to take.
Post-employment Benefits (including Pensions)	Many pension plans are becoming increasingly complex. Some are now a combination of defined contributions (the contributions that an entity must make are fixed) and defined benefits (the contributions that an entity must make vary and benefits are determined by reference to a formula— usually based on employees' earnings and/or years of service). This project is assessing whether current accounting requirements are appropriate for these types of plans.
Financial Instruments with Characteristics of Equity	Some financial instruments have characteristics of both liabilities and equity (eg put options on an entity's own shares). This project seeks to determine when such instruments should be reported as a liability rather than as equity. That decision could have a significant effect on an investor's analysis of an entity.
Equity Method of Accounting for Investments	The equity method of accounting for investments in associates and joint ventures often results in various complexities (eg treatment of intercompany gains and losses). We are currently considering whether these can be simplified in the short term. In this survey we would like to know whether we should also consider a longer term project to fundamentally reassess whether and how to use the equity method.

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Project	Description
Provisions, Contingent Liabilities and Contingent Assets	Concerns have been raised about the requirements for identifying some liabilities (eg levies and restructuring costs), as well as the general diversity in measuring liabilities. This project is looking to investigate these concerns to determine what steps, if any, the IASB should take.
Share-based Payment	Many have commented on the complexity of the current requirements in accounting for 'share-based payments' (eg employee share options). The objective of the project is to identify the most common areas of complexity and their causes.
Extractive Activities/ Intangible Assets/ R&D	There are different practices today in accounting for extractive activities. In analysing this we have found parallels with accounting for general research and development activities and internally generated intangible assets. However, based on feedback received we don't currently plan to begin a project on these topics unless the results from this consultation tell us otherwise.
Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)	There is significant diversity in how pollutant pricing mechanisms, including emissions trading schemes, are accounted for in practice. One example is the treatment of emissions allowances provided free of charge. This project will look at addressing this diversity.
Business Combinations under Common Control	There are specific accounting requirements for mergers and acquisitions, but not for group restructurings and reorganisations controlled by the same party (often described as 'business combinations under common control'). The project would look at current practice and at whether any improvements should be made.
Definition of a Business	In some circumstances, it can be difficult to distinguish between a business combination (eg merger and acquisition) and an asset acquisition. This is important because the accounting requirements differ (mainly with respect to the recognition of goodwill) depending on the type of transaction. One way to address this may be by clarifying the definition of a business.
Dynamic Risk Management	Entities often manage risk dynamically based on open portfolios (ie portfolios that change over time). This type of activity, referred to as 'dynamic risk management,' is typically carried out in the financial sector (eg to manage interest rate risk arising from portfolios of assets and liabilities for the purposes of stabilising net interest income). The current hedge accounting requirements do not address all aspects of this type of risk management. The objective of this project is to develop an approach to better reflect such activities in financial statements.

Looking forward-the bigger picture

In addition to feedback about specific topics within our current research pipeline, we would like to know if you think the IASB should expand the current focus of the organisation, either in terms of the kinds of reported information we should cover (such as environmental, social and governance issues) (see **Figure 2**) or the expanding role of technology (see **Figure 3**).

Figure 2

Corporate Reporting

The IASB has a regular dialogue with a number of the world's leading organisations in the broader corporate reporting debate. This includes the International Integrated Reporting Council (IIRC) and—through the Corporate Reporting Dialogue forum—the Carbon Disclosure Project, the Global Reporting Initiative and the Climate Disclosures Standards Board. We have a Memorandum of Understanding with the IIRC that states we will continue to co-operate on important areas of mutual interest. Is our current involvement in these activities sufficient to meet the market's needs or should it increase? And, if you believe we should increase our involvement, what level of resources and capabilities do you believe should be dedicated to these areas? The IFRS Foundation is consulting separately on these issues. For more information click here.

Figure 3

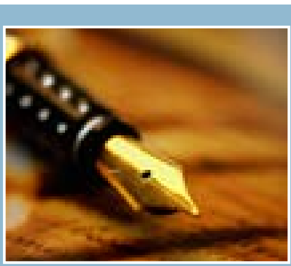
Technology

Innovations in information technology continue to occur and, equally important, appear to be occurring at an increasing rate. To date, technology has provided tangible benefits by making information easier to access and more timely. However, the most critical benefit of information remains content—and, more specifically, relevant content. Technology can help to reduce the time to sort through data and information, but we recognise that investors need financial information that is capable of making a difference in helping them forecast future net cash flows of the companies in which they invest or to which they provide credit. Accordingly, we would like your views about whether and how the IASB should be incorporating the role, or potential role, of technology to a greater extent in the development of Standards for general purpose financial reporting.

To make it easy for you to respond to these questions and topics, we have also prepared an investor survey that you can access here. We expect it would require no more than 15 minutes of your time. Responses are due by 15 December 2015. In addition, the Request for Views on our agenda is out for comment until 31 December 2015 and you can comment on the Request for Views on our structure and effectiveness until 30 November 2015.

We look forward to hearing your views. Imagination is welcome.

Get in touch



To submit a comment letter, please visit: go.ifrs.org/comment_AC

If you would like to discuss this topic or other areas of accounting, please contact:
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