

Research in Accounting

How to contribute to the IASB's work

Darrel Scott and Ann Tarca
IASB Board members
University of Johannesburg
October 2018

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

What we will discuss today

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- Publications and active projects
- IASB research programme and research pipeline
- How the IASB uses research
- What makes research useful to the IASB

Publications and active projects

Final documents	Consultation documents
<ul style="list-style-type: none">• <i>Conceptual Framework for Financial Reporting</i> <p>→ Upcoming</p> <ul style="list-style-type: none">• Definition of a Business (IFRS 3)• Definition of Material (IAS 1 and IAS 8)	<ul style="list-style-type: none">• <i>Financial Instruments with Characteristics of Equity</i> (Discussion Paper: comments due 7 January 2019)• Costs Considered in Assessing whether a Contract is Onerous (Exposure Draft: Q4 2018)• Proposed IFRS Taxonomy Update—Common Practice (IFRS13) (September 2018)

Active projects

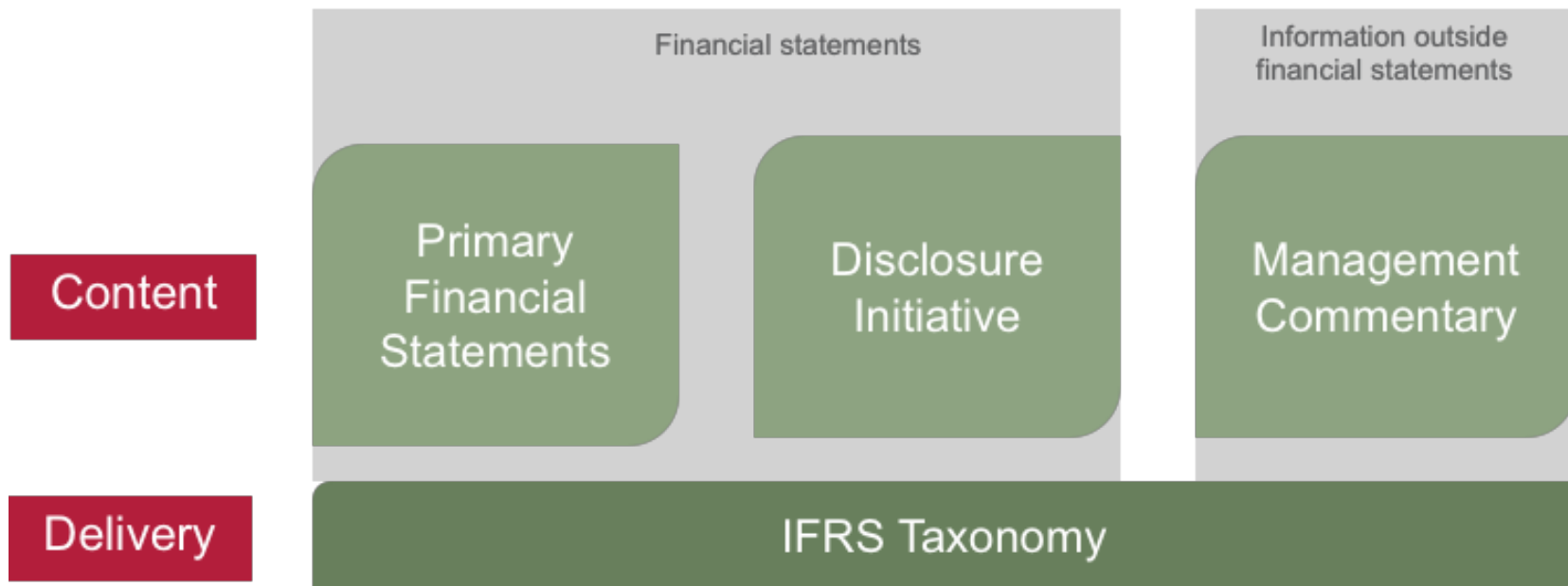
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Project	Target
Better Communication	Various
Rate-regulated Activities	DP or ED H2 2019
Business Combinations under Common Control	DP H2 2019
Goodwill and Impairment	DP or ED
Financial Instruments with Characteristics of Equity (FICE)	DP Feedback H1 2019
Dynamic Risk Management (DRM)	Core Model H1 2019
Interbank Offered Rate (IBOR)	Decide Project Direction Q4 2018

Central Theme of our work

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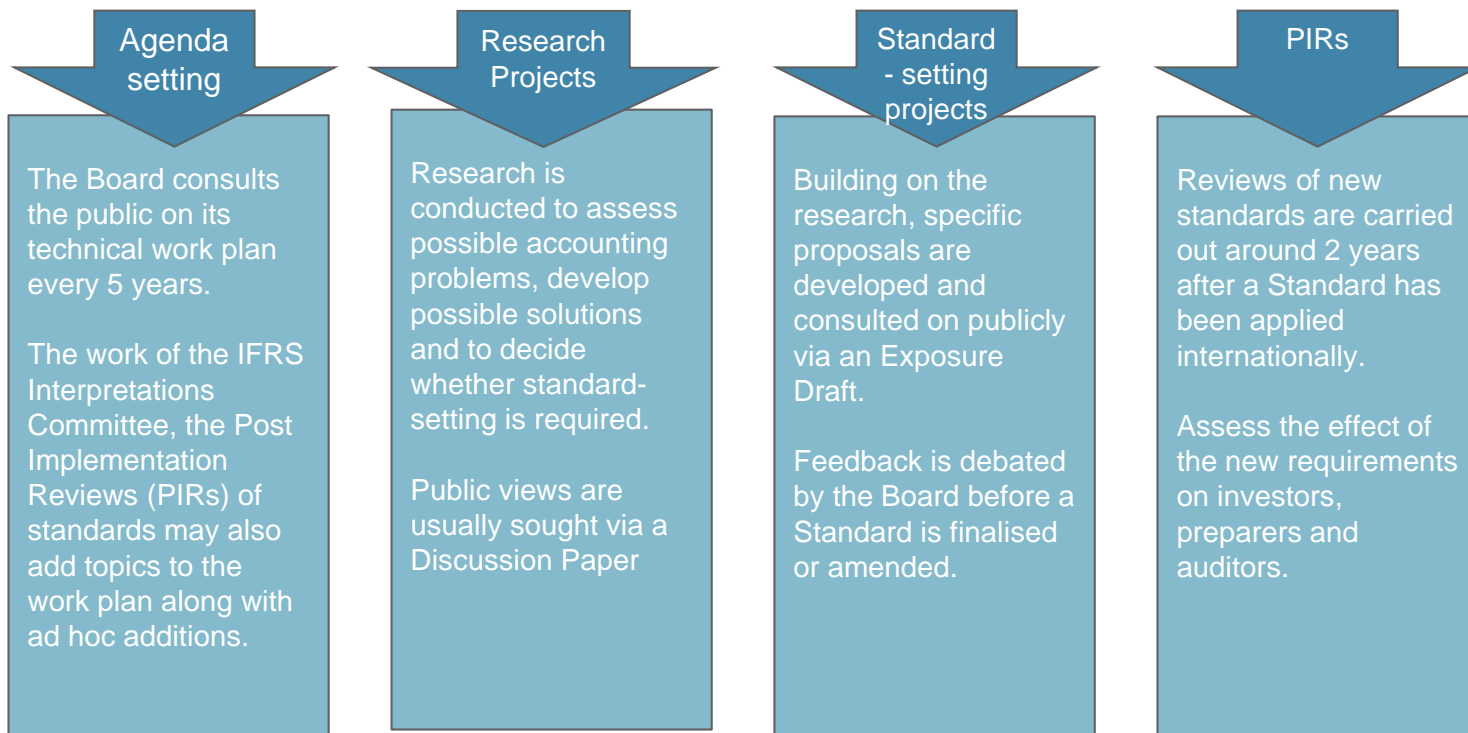
Better Communication in Financial Reporting



Research programme and research pipeline

The standard setting process

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- A broad research and development programme
 - lower threshold to get onto the programme
 - higher threshold to progress further
- Emphasis on defining the problem
 - identify whether there is a financial reporting matter that justifies an effort by the IASB
 - evidence-based
- The programme is designed to **shorten** the time needed to develop improvements to financial reporting, by:
 - clarifying the problem up front, before a solution is developed
 - feeding manageable projects into the Exposure Draft phase on a timely basis

- A recommendation to:
 - propose a change to IFRS Standards
 - put a project on hold, for the time being
 - resourcing
 - other factors
 - stop working on the issue
 - develop education or support material

- IASB External Research Website
 - <http://www.ifrs.org/research-centre/>
- Evidence-supported standard-setting
 - explanations of when, and how, we use research
- Research opportunities
 - IASB Research Forum
 - <http://www.ifrs.org/news-and-events/2018/iasb-research-forum-2018/>
 - literature reviews for PIRs
 - ASAF research
 - external research funding

Projects

Business Combinations under Common Control

Disclosure Initiative – Principles of Disclosure

Dynamic Risk Management

Extractive Activities

Projects

Financial Instruments with Characteristics of Equity

Goodwill and Impairment

IBOR Reform and the Effects on Financial Reporting

Pension benefits that depend on Asset Returns

Research pipeline

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Topic	Comments
Equity method	A number of queries over time. Topic to be investigated as part of PIR of IFRS 11 <i>Joint Arrangements</i>
High inflation: Scope of IAS 29	The project's objective will be to assess whether it would be feasible to extend the scope of IAS 29 <i>Financial Reporting in Hyperinflationary Economics</i> to cover economies subject to only high inflation, without amending other requirements of IAS 29.
Pollutant pricing mechanisms	An analysis of the common economic characteristics of the various schemes will be needed
Provisions	Initial research on IAS 37 is largely complete, awaiting finalisation of revised <i>Conceptual Framework</i>
Variable and contingent consideration	Cross-cutting issue raised in agenda consultation and in earlier deliberations of other topics. This work may also lead to follow on work on risk-sharing and collaborative arrangements
SMEs that are subsidiaries	Assess whether it is feasible to permit subsidiaries that are SMEs to use: <ul style="list-style-type: none">• the recognition and measurement of IFRS Standards with• the disclosure requirements for SMEs

- The pipeline projects present broad opportunities for researchers
 - They have not commenced and thus have a longer time line for research activity
 - They include some projects where scope has not been defined and problem definition has not been clarified, allowing for many research angles
 - Eg Equity accounting
 - They include topics where academic researchers have interest and expertise
 - Eg Pollutant pricing mechanisms

Post implementation reviews

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IFRS Standards

IFRS 13 *Fair value measurement* (commenced)

Next

IFRS 10 *Consolidated Financial Statements*

IFRS 11 *Joint Arrangements*

IFRS 12 *Disclosure of Interests in Other Entities*

From
IFRIC

IFRS 5 *Non-current assets Held for Sale and Discontinued Operations*

Further out

IFRS 9 *Financial Instruments*

IFRS 15 *Revenue from Contracts with Customers*

IFRS 16 *Leases*

IFRS 17 *Insurance Contracts*

- PIRs can be enhanced by contributions from academics
- The IASB will call for literature reviews prepared by academics
- The schedule for PIRs indicates the IFRS Standards where the Board will:
 - consider important or contentious issues in the development of the Standard
 - consider issues that have come to the Board's attention since issue of the Standard
 - identifies areas where unexpected costs or implementation problems were encountered

How the IASB uses research

- IASB conducts evidence based standard setting
- (1) In house research
 - Evidence of a problem
 - Data on issue (descriptive statistics)
 - Effects analysis
- (2) Other sources of descriptive statistics
- (3) Academic research evidence

(1) In house research activities

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- Consult with stakeholders
 - individual conversations, meeting with groups of interested parties, consultative group meetings, feedback on DP/ED
- Review of financial statements
 - Collect data from pdf of annual report/financial statements
- Data from databases
 - Data aggregators

Example – Board paper: Separate presentation of the share of the profit or loss of ‘integral’ associates or joint ventures

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Approach A		Approach B		Approach C	
Statement of Financial Performance		Statement of Financial Performance		Statement of Financial Performance	
	2017		2017		2017
Revenue		Revenue	X	Revenue	
Cost of products sold	X	Cost of products sold	X	Cost of products sold	X
SG&A expense	X	SG&A expense	X	SG&A expense	X
Service cost	X	Service cost	X	Service cost	X
Share of profit of associates and JVs integral to operations	X				
		Operating profit from consolidated entities	X		
		Share of profit of associates and JVs integral to operations	X		
Profit before investments, financing and income tax	X	Profit before investments, financing and income tax	X	Profit before investments, financing and income tax	X
Income/expenses from investments		Income/expenses from investments		Income/expenses from investments	
Share of profit of other associates and JVs	X	Share of profit of other associates and JVs	X	Share of profit of associates and JVs integral to operations	X
				Share of profit of other associates and JVs	X
Fair value changes in the value of investment property	X	Fair value changes in the value of investment property	X	Fair value changes in the value of investment property	X
Dividends received on equity investments	X	Dividends received on equity investments	X	Dividends received on equity investments	X
Interest income on long-term debt investments	X	Interest income on long-term debt investments	X	Interest income on long-term debt investments	X
Gain on the disposal of real estate investment	X	Gain on the disposal of real estate investment	X	Gain on the disposal of real estate investment	X
Rental income	X	Rental income	X	Rental income	X
Profit before financing and income tax	X	Profit before financing and income tax	X	Profit before financing and income tax	X
Interest income from cash and cash equivalents calculated using the effective interest method	X	Interest income from cash and cash equivalents calculated using the effective interest method	X	Interest income from cash and cash equivalents calculated using the effective interest method	X
Other income from cash and cash equivalents and financing activities	X	Other income from cash and cash equivalents and financing activities	X	Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	X	Expenses from financing activities	X	Expenses from financing activities	X
Other finance income	X	Other finance income	X	Other finance income	X
Other finance expense	X	Other finance expense	X	Other finance expense	X
Profit before tax	X	Profit before tax	X	Profit before tax	X
Income tax expense	X	Income tax expense	X	Income tax expense	X
Profit for the year from continuing operations	X	Profit for the year from continuing operations	X	Profit for the year from continuing operations	X
Loss from discontinued operations	X	Loss from discontinued operations	X	Loss from discontinued operations	X
Profit for the year	X	Profit for the year	X	Profit for the year	X

Example – Research question: Cryptocurrency in financial statements

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Platform	XBRL database?	Search string	Searched	Number of hits - companies
Alphasense	No	"cryptocurrency" OR "crypto" OR "crypto-currency" OR "digital currency"	All 20F/20FA forms filed (i.e. US Foreign issuers) in the last 12 months	13
Idaciti	Yes	"cryptocurrency" OR "crypto" OR "crypto-currency" OR "digital currency"	All 20F forms filed 2017-2018	3
Calcbench	Yes	"cryptocurrency" OR "crypto" OR "crypto-currency" OR "digital currency"	Disclosures & Footnotes of all US IFRS filers – most recent available filing	6
XBRL US	Yes	cryptocurrency	Search for text in all filings, can't find a way to limit to IFRS filers.	54

3—Companies affected by changes in lessee accounting

Listed companies

The IASB has assessed the effects of the changes to lessee accounting by analysing information available about leases classified as operating leases applying previous lease accounting requirements in IFRS and US GAAP²⁰ ('off balance sheet leases').

Because of limitations on the availability of relevant information, quantitative effects of the changes to lessee accounting are estimated using various assumptions. The information included in this section and the following sections should be viewed considering the assumptions set out in Appendix A. In particular, the IASB used financial data aggregators to gather information about off balance sheet leases applying previous lease accounting requirements. In this section, any reference to listed companies refers to listed companies using IFRS or US GAAP captured by financial data aggregators.

The table below provides a summary indicating the prevalence of the use of off balance sheet leases by listed companies throughout the world.

Listed companies only	Percentage of IFRS / US GAAP companies who disclose off balance sheet leases ²¹	
	North America	62%
	Europe	47%
	Asia / Pacific	43%
	Latin America	23%
	Africa / Middle East	23%
	Total future minimum payments for off balance sheet leases (undiscounted)	US\$2.86 trillion
	Present value of future minimum payments for off balance sheet leases (estimate) ²²	US\$2.18 trillion

The IASB observed that over 14,000 listed companies (of about 30,000 listed companies) disclose information about off balance sheet leases in their latest annual reports. The future payments for off balance sheet leases for those 14,000 listed companies totalled US\$2.86 trillion (on an undiscounted basis). The present value of those payments is estimated to be US\$2.18 trillion.

IFRS 16 is expected to affect the amounts reported by almost half of listed companies. This also means that IFRS 16 is not expected to affect the amounts reported by the other half.

IASB sample

Further analysis of off balance sheet leases for listed companies reveals that 1,145 of these companies (ie 3.8 per cent—1,145 of about 30,000) account for over 80 per cent of the present value of total off balance sheet leases (ie US\$1.83 trillion of a total of US\$2.18 trillion). These companies each have estimated off balance sheet leases of more than US\$300 million, calculated on a discounted basis.

Example – IFRS 16 Effects analysis p. 15

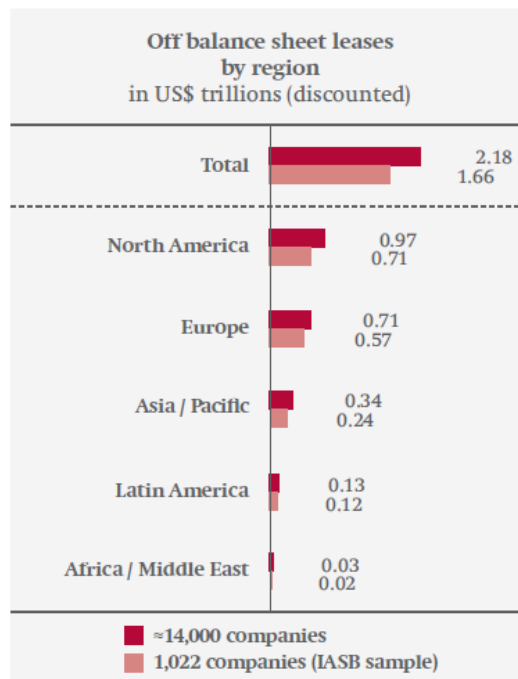
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The IASB has used this sample of 1,145 companies as a starting point for further analysis. However, the IASB excluded banks²³ and insurance companies from the sample because of the disproportionate size of their respective balance sheets as compared to other companies, resulting in a sample of 1,022 companies.

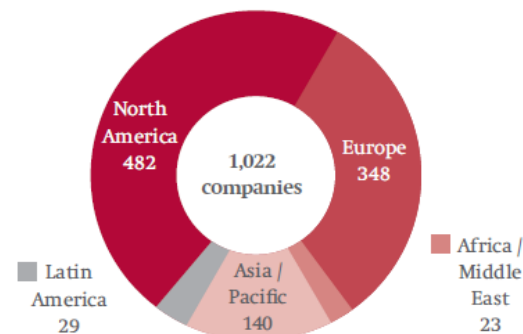
The present value of future payments for off balance sheet leases for those 1,022 companies amounts to US\$1.66 trillion—this represents 76 per cent of total off balance sheet leases for listed companies (US\$2.18 trillion on a discounted basis).

The proportion of total off balance sheet leases by region included in the IASB sample is shown in the chart on this page and is summarised as follows:

- North America – 73%
(ie US\$0.71 trillion of US\$0.97 trillion)
- Europe – 80%
- Asia / Pacific – 71%
- Latin America – 92%
- Africa / Middle East – 67%



IASB sample—No. of companies with most significant off balance sheet leases by regions



The IASB compared the off balance sheet leases to the total assets of these 1,022 companies. That analysis indicated that the prevalence of off balance sheet leases is very different for different industries. Detailed information by industry sector is reported on the table on the next page.

Off balance sheet lease financing numbers are substantial. However, the use of off balance sheet leases is highly concentrated within some industry sectors and within some companies.

(2) Other sources of descriptive statistics

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- Reports published by professional associations and others
 - Research reports
 - Examples CFA Institute, ICAEW, ICAS, ACCA.
- Research paper presentations
 - Board and staff
 - Meetings of consultative groups

Example – CFA report

CFA Institute Member
Survey Report (2018)

2 EXPECTATIONS ON ROLE OF APMs

Figures 1, 2, and 3 show the levels of support from respondents for the expansion of APMs. The survey results are provided by region, functional role, and type of institution.

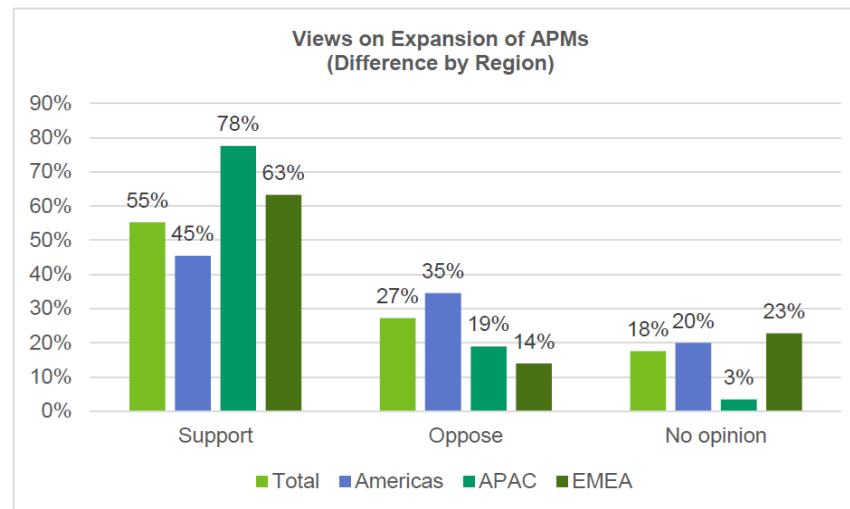


Figure 1: Views on Expansion of APMs—Difference by Region (n = 639)

(3) Academic research evidence

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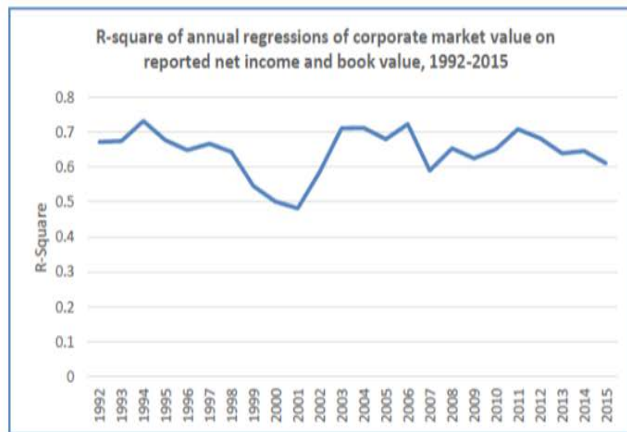
- Barth, Mary E. and Li, Ken and McClure, Charles, Evolution in Value Relevance of Accounting Information (May 7, 2018). Stanford University Graduate School of Business Research Paper No. 17-24. Available at SSRN: <https://ssrn.com/abstract=2933197> or <http://dx.doi.org/10.2139/ssrn.2933197>
- We address how value relevance of accounting information evolved as the new economy developed. Prior research concludes accounting information—primarily earnings—has lost relevance. We consider more accounting amounts and find no decline in combined value relevance from 1962 to 2014. We assess evolution in each amount's value relevance and find increases, most notably for amounts related to intangible assets, growth opportunities, and alternative performance measures, which are important in the new economy. The number of relevant amounts also increases. We also consider separately new economy, non-new economy profit, and non-new economy loss firms. Although the relevance trends are most pronounced for new economy firms, they are economy-wide. We base inferences on a non-parametric approach that automatically incorporates nonlinearities and interactions, thereby unconstraining the valuation relation. Taken together, our findings reveal a more nuanced, but not declining, relation between share price and accounting information that reflects the new economy.

Example – Research paper

Is financial reporting still and effective tool for equity investors in Australia?
Working paper, University of Melbourne and Monash University.

<https://www.ifrs.org/-/media/feature/meetings/2018/april/asaf/asaf-08a-research-paper-april-2018.pdf>. Also <https://www.ifrs.org/-/media/feature/meetings/2018/april/asaf/asaf-08-is-financial-reporting-still-an-effective-tool-for-equity-investors-in-australia-april-2018.pdf>

Relevance of Financial Statements: Archival Evidence



Average = 0.64

- Reported net income (NPAT) and shareholders' equity are consistently incorporated into Australian companies' share prices over the time period
- On average, 64 per cent of a company's share price is associated with information contained within reported NPAT and shareholders' equity
- Financial reporting has not declined in relevance in Australia over the period studied

What makes research useful for the IASB

- Selection of relevant topics
 - Providing evidence relevant to research projects or research pipeline
 - Post implementation reviews
 - Consider lead times
- Academic rigour
 - Use appropriate methods
 - Be creative but careful
 - Replication studies have a role

- Explore implications
 - Be informed
 - Understand the issues for standard setters
 - Speak to practitioners
- Clear presentation
 - A stand-alone introduction, written for non-academics
 - Clear conclusions (avoid the ‘maybes’ and ‘might’s’)
 - Accessible writing: write for an intelligent person not from the discipline
 - Avoid academic insider terms (ie jargon)

Example - PIR IFRS 13

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- IFRS Foundation called for expressions of interest in preparing a literature review on the impact of IFRS 13
- An international team was appointed
- The team prepared and revised drafts in consultation with staff and Board members
- The team presented the final review to the Board January 2018 (Agenda Papers 7A, 7B and 7C)

- Prepared by academic experts (relevant skills and experience – academic and on the topic fair value measurement).
- Provided overview of scope of literature
- Found material to answer PIR questions
- Provide details of relevant studies – any research method
- Showed where academic evidence was present and missing
- Positive feedback from Board members and staff re usefulness

Example – KPMG IAAER Research grant program

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- SARQUIS, SANTOS, LOURENCO and BRAUNBECK
 - *Elimination of accounting choices and the comparability of financial statements: the adoption of IFRS 11 Joint Arrangements*
 - Impact of IFRS 11. Relevant to PIR 10/11/12.
- PAANANEN, RUNESSON and SAMANI
 - *Visibility and decommissioning disclosure quality under IFRS*
 - Disclosure IAS 37 and Extractive firms. Relevant to Disclosure Initiative and Extractive Activities.
- JONES, McCOY and SMITH
 - *Comparability vs flexibility in alternative performance measures: views of preparers, auditors and analysts*
 - Management Performance Measures. Relevant to Primary Financial Statements.

- HODDER, HOPKINS and SHENEMAN
 - An investigation of accounting measurement as a function of intent and intent as a function of accounting measurement
 - FI gains/losses PL/OCI. Relevant to financial instruments.
- KARAIBRAHIMOGLU and PORUMB
 - *The adoption of the expanded audit report and the relevance of IFRS risk disclosures: Evidence from syndicated loan contracting*
 - IFRS 7 disclosure. Relevant to financial instruments and Disclosure Initiative.

- The grant program is in the sixth round
- Projects address topics of IASB interest or on the workplan
- Project teams benefit from discussion with and feedback from practitioners
- Several layers of evidence – descriptive statistics as well as answers to research questions
- Academics have skills to do impartial work and provide robust evidence

Join our team

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a mission
that matters



working with global
accounting experts



access to network of
influential people



small organisation
with a big impact



unique development
opportunities



intellectually
stimulating



international
environment

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