The Impact of the Adoption of IFRS 11 on the Comparability of Accounting Information

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## Agenda example

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Introduction

• Thank you for the paper
• Provides an analysis of
  – the IASB’s decision to eliminate proportionate consolidation as an alternative accounting treatment for associates, and
  – the consequential impact on comparability
• Also analyses:
  – regional differences in decision making before the change
  – drivers of decision making before the change
  – quality of subsequent disclosure
Findings

• Interesting paper, as much for incidental findings as for primary finding

• Primary findings
  – the paper finds comparability decreased with the elimination of the accounting policy choice

• Incidental findings
  – loss of quality Information in disclosures (vs PFS)
  – effect of cultural and regional factors on accounting policy choice
  – insight into decision criteria for entities choosing accounting policy

• Incidental findings flagged a question for me on causality
Main findings

• The paper analyses the effect of the board’s decision to:
  – eliminate the accounting policy choice allowing entities to proportionally consolidate associates
  – in the context of the board’s rational that this would increase comparability

• Includes a useful reminder of uniformity versus comparability

• The paper finds that:
  – eliminating the proportional method of accounting reduced information
  – additional disclosure intended to compensate for loss of information was poorly complied with

• Consequently, comparability is reduced at an overall level (although outcomes different at a sub level)
Incidental findings

Disclosure

• The paper notes that the Board introduced new disclosures as part of the IFRS 10, 11 and 12 package

• These disclosures were designed to:
  – compensate for the information lost due to the switch from proportional consolidation
  – even the playing field to ensure that disclosures where the same irrespective of historical method used

• Paper findings provide insight that disclosure requirements may not have met this objective
Incidental findings
Exercise of accounting policy choice

• Free accounting policy choice places onus on preparers to consider user needs (directly or indirectly)
• Critical to understand how and why preparers make their choices
• Paper finds that preparer decision affected by (at least):
  – source of finance
  – size
  – profitability
  – choice of auditor
  – leverage
  – industry
• Also finds significant differences in regional decision making
Immediate relevance of findings

PIR of IFRS 10, 11 and 12

• In undertaking a PIR the Board:
  – considers important or contentious issues in the development of the IFRS;
  – considers issues that have come to the Board’s attention since publication;
  and
  – identifies areas where unexpected costs or implementation problems were encountered.

• In the first phase of the PIR the Board will identify the issues to examine in greater detail

• 1st step due to be published in December
Immediate relevance of findings

Other topics

• Disclosure initiative
  – disclosure requirements are only useful if they are effective

• Projects where IASB is considering limited or defining choice
  – Business Combinations under Common Control
    • entities currently have relatively unconstrained choice
    • a question as to the drivers of decision making on that choice
    • objective is both limit and guide that choice (loss of information?)
  – PFS integral vs non-integral associates
    • entities currently have relatively unconstrained choice
    • proposed requirements to define how that choice is made
Conclusion

• I found the discussion in the paper useful and thought provoking
• Uniformity versus comparability
• The incidental findings were also important
• Direct causality
Questions?