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Topic

Agenda consultation –breakout sessions

1. The staff presented the summary of responses to the Board's Request for View Agenda Consultation 2011 at the January board meeting. The papers presented were:
 - (a) *5A Comment letter summary*
 - (b) *5B Feedback from users of financial statements*
 - (c) *5C Comment letter summary –priorities of standards-level projects*
2. These papers can be accessed through the agenda consultation project page on the web site:

<http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+agenda+consultation/IASB+agenda+consultation.htm>
3. In March the staff will address the further ways in which the priorities of standard-level projects could be assessed. The staff will also consider how the messages received on the Board's five identified strategic areas will affect this evaluation process.
4. The staff would like to hear your views on how the comments received in response to the Board's Request for Views *Agenda Consultation 2011* should affect the standard-setting process. The staff would like your advice today in two areas:
 - (a) How should the comments received on the Board's identified strategic areas affect the agenda setting process?

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council of the IASB.

The views expressed in this paper are those of the authors.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretation Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

- (b) What factors should be considered when developing a framework for assessing the priorities of standard-level issues?

Strategic areas

- 5. Many respondents requested a switch from the strategies categorised as developing IFRSs to those maintaining IFRSs. This could suggest a focus of resources away from the conceptual framework, research and standards-level projects to more of an emphasis on post-implementation reviews and implementation support.

Conceptual framework

- 6. Despite this emphasis on maintenance, most respondents attributed high importance to developing the conceptual framework, including a disclosure framework:
 - (a) Most respondents thought the development of a sound conceptual framework is fundamental to principles-based standards
 - (i) It enables constituents to apply standards consistently
 - (ii) It forms the basis for revising and developing standards
 - (b) Respondents thought the Board should address performance as a priority by clarifying the concept of profit or loss; nature of OCI; basis for recycling
 - (c) Some respondents thought the Board should focus on topics in the conceptual framework that will address known problems eg definition of asset for rate-regulated industries; emissions trading schemes

Do you think the IASB should give more emphasis to maintaining IFRSs, even if this means less time is available for the conceptual framework, research and standards-level projects?

What importance do you think the Board should place on developing the conceptual framework? To which phases of the framework should the IASB give priority, or should a revised framework be developed in one phase?

The role of research in standard-setting

7. Many respondents told us that, on the face of it, research should not be a priority. Many respondents were particularly wary of the Board devoting too many of its resources to research, especially ‘blue-sky-thinking’. However, many of those respondents also gave a clear and consistent call for the IASB to provide more evidence to support the decisions and choices that it makes, at all levels. In other words, many respondents suggested ways in which research should feed into the standard-setting process.
8. Our assessment is that respondents think that research is important, but that IASB staff should not undertake a significant level of research themselves. Instead, they should rely on a network of national standard-setters, academics and others to feed research results into the IASB. In a similar manner, ‘blue sky thinking’ is important, but, given competing priorities, any such work might be more productively undertaken by others.
9. The Board needs to be clearer about the role that research plays in the standard-setting process.

Evidence-based agenda setting

10. There was a general view that projects should be taken onto the agenda only if there were good reasons to believe that capital markets would benefit from changes in accounting or reporting.
11. In accordance with that view, the initial stage of the agenda setting process should be obtaining documented evidence that there is a problem in financial

reporting. That approach would place more emphasis on research, and on early research.

12. This might change the way in which the Board develops its projects, putting more emphasis on defining the problem and assessing potential solutions before the Board formally considers adding it to the agenda or deciding to do nothing more with the matter. It has been suggested that the national standard setters could assist the Board in this process by helping them with research aimed at defining the problem and identifying possible solutions.
13. Some suggested that feasibility studies of the identified solutions should be carried out before a standards-level project is added to the agenda. Research could be undertaken at an early stage to identify possible solutions and assess their technical and operational feasibility.
14. Also at this research phase the Board could make a preliminary assessment of the relative costs and benefits of each approach. This could involve considering academic and other studies related to that problem or to analogous problems. The Board might also want to hold consultations with preparers and investors on potential solutions, so that we can learn more about the potential costs to preparers of different options and identify areas where investors say that the information they receive now is deficient.
15. Many thought that more weight generally should be given to research on users' needs than is done at present, to establish where improvements were required. Many cited surveys of users, reviews of published financial statements and the results of post implementation reviews (PIRs) as useful starting points for assessing if change was required. This would help the Board to eliminate choices whose benefits are unlikely to exceed their costs.
16. In this research-led approach, projects would only be added to the standard setting phase when the Board is confident that the problem is properly defined and identified solutions are feasible, of high quality and implementable and all of the agenda criteria have been met.

Issue 2

Do you agree that items should not be added to the standards-level agenda until adequate evidence is gathered to properly define the problem and its scope, that solutions are feasible, of high quality and implementable and that the agenda criteria are met?

Such an approach could infer that, in most cases, items would be placed initially on a research agenda before being considered for the standard-level agenda.

Priority assessment criteria

17. Many comment letter respondents suggested ways in which identified issues could be prioritised for attention by the Board.

Evidence-based agenda setting

18. As discussed above, many respondents believe that documented evidence of a need for change in financial reporting should drive which projects are added to the Board's agenda. Respondents identified two broad drivers for change—the need to fill a gap in financial reporting or the need to improve an aspect of existing guidance.
19. The need to fill a gap in IFRSs is indicated where there is a known lack of guidance. Some respondents believe that these gaps will increase over time as new types of transactions evolve.
20. Indicators that existing standards needs to be improved include:
- (a) there are significant deficiencies in IFRSs resulting in divergence in practice;
 - (b) changes in markets or economies render the existing IFRS irrelevant; and
 - (c) the existing IFRS conflicts with other standards or the framework.

On-going effects analysis

21. As noted above, many respondents believe that more research should be done on the feasibility of a project before it is added to the agenda. An initial study

should be carried out, not only to demonstrate the need for the project, but also to identify possible solutions to ensure that the project would have a reasonable chance of success, within a reasonable time frame.

22. Supporters of this approach also think that this research should be carried out throughout the life of the project and that projects with intractable problems, or projects for which solutions have little support from stakeholders, should be abandoned.

Other factors useful in assigning priorities

23. Many respondents discussed the notion of ‘urgent and important’. An assessment of these criteria can vary by jurisdiction and by industry.
24. An issue that applies across jurisdictions (eg recognising intangible assets) or to an industry generally (eg insurance entities) could be given priority over others. This assessment focuses on the breadth of the problem (how *many* are affected) as well as the depth of the problem (how *much* is each entity affected).
25. Other respondents take a different view and believe the agenda should be set by looking at a balance between the resources required and the effect achieved. In their view, if an issue could be resolved efficiently and with little effort, even if it would affect relatively few stakeholders, it should be given priority.
26. The staff have considered assessing issues against a matrix of factors. An example of one such matrix is considered below, using three topics identified in the agenda consultation document as examples.

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Issue	Breadth	Depth	Research status	Feasibility status	Possible Approach
IAS 41	Restricted to bearer assets, within agriculture sector	High-impact on affected entities	Mature- AASB 2004 MASB 2011	To be assessed – likely to be high	Could develop a formal agenda proposal for a narrow scope amendment to IAS 41
Income tax	Varies greatly by jurisdiction	Affects all entities within a jurisdiction	Diversity of fiscal regimes means global issues not defined	Must be workable in all regions and for all entities. Much work required.	Likely to be a longer term project. Could ask national standard setters to identify problems and log local issues
Shariah Law and its implications for financial reporting	Entities that have Shariah compliant transactions are becoming increasingly significant economically, yet many do not report in accordance with IFRSs.	Affects a broad range of transaction types	Board has low levels of information. Some national standard setters have excellent knowledge.	Not assessed	Establish a working party and focus on education and advise the Board.

Issue 3

Do you think the type of assessment illustrated in the matrix is a good approach to prioritising the Board’s work? Do you have any suggestions for other factors that should be taken into account in an assessment matrix?