

AGENDA PAPER

IFRS Advisory Council Meeting

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TOPIC Establishing an IASB dedicated research capacity

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

Dedicated research capacity

To provide leadership in thinking in the field of financial reporting, the IASB should establish, or should facilitate the establishment of, a dedicated research capacity.

The IFRS technical staff have no dedicated resource for accounting research to understand how existing standards are operating, to analyse trends of financial reporting and to identify future issues. This is the consequence of limitations on financial resources and the focus on completing the present work programme.

The Trustees recommend establishing, or facilitating the establishment of, a research capacity that could draw upon some combination of internal and external intellectual resources, including a more active engagement of the academic community. The Trustees would necessarily seek dedicated, separate financing to support such a research capacity. The Chairman and the Vice-Chairman of the IASB should present a proposal by the end of 2012 on implementing this conclusion, which assumes funding will be available.

Extract from IFRS Foundation - Trustee Strategy Review

Background

At the IFRS Advisory Council meeting you will be asked to contribute to a discussion of how the IASB should develop a stronger research capability. As the extract from the *Trustee Strategy Review* states, we are developing, by the end of this year, a proposal to be presented to the Trustees at their meeting in January.

The IASB has established a committee of IASB members and senior technical staff to advise on the development of a plan to create a research capability for the IASB. The committee is expected to consider the extent to which the IASB should have its own research staff and resources as well as ways by which the IASB can create and benefit from a network of researchers from the broader IFRS community. The committee is also expected to give preliminary consideration to identifying research projects that might be undertaken over the next three years.

Often, when I discuss our research capability, the first thing I need to do is clarify what we mean by ‘research’. It is not restricted to scientific-style accounting research, whereby a methodical study is undertaken, often looking for evidence to reject a null hypothesis. Such research is valid, and of interest to the IASB. But it is not the only kind of research. My view of research is much wider and includes any gathering of data, information and facts for the advancement of knowledge. In our case, research is the collection of information to help the IASB in its decision-making. This could include observing financial reporting practice; interviewing people who work with IFRS, as preparers, users, auditors or regulators; using economic models to assess financial reporting alternatives; conducting field tests; undertaking literature reviews; or assessing empirical accounting research. This list is far from exhaustive.

The need for evidence

The purpose of this initiative is to help to ensure that the IASB has the evidence it needs to support its decisions and to persuade those who use IFRSs that the IASB has made the right choices between competing solutions when it develops those IFRSs.

We have recently changed the way in which we develop our projects, putting more emphasis on defining the problem and assessing potential solutions before we consider

formally adding a project to the agenda. This approach means that the IASB would develop Discussion Papers for most of the projects identified in its agenda consultation. The IASB needs to assess whether a potential problem identified by a constituent has merit. Assessing when a project that has merit should be added to the agenda is a second-order question.

When we began our first three-yearly public consultation on the IASB work programme, we identified about 30 potential projects. What is the breadth or depth of the problems that the projects would address? For example, is there an inconsistency that affects all entities in a relatively small way (such as inconsistent treatment of acquisition costs) or is it a very serious problem that applies only to a narrow set of circumstances? For each issue, the IASB will need evidence of the breadth and depth of the problem. It will also want to assess the potential solutions, making 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 IASB might also want to consult on potential solutions so that it can learn more about the potential costs to preparers of different options and identify areas where investors say the information they receive now is deficient. This will help the IASB to eliminate choices whose benefits are unlikely to exceed their costs. Projects will only be added to the standards-level programme when the IASB is confident that it has identified solutions that are of high quality and are implementable.

While a potential IFRS is being developed, the IASB will summarise its choices, outlining the likely effects of the new requirements. If the IASB has done its job properly it will have gathered evidence throughout the development of the new Standard and will have used that evidence to support its decisions.

When an IFRS begins to be applied in practice, matters will come to the attention of the IFRS Interpretations Committee. That committee is required to assess whether there is divergence in practice before it takes a matter onto its agenda. Until recently this assessment has been largely anecdotal. The Interpretation Committee is now far more systematic about gathering evidence from a wide range of sources.

All new IFRSs and major amendments become the subject of a post-implementation review (PIR) 2-3 years after the new requirements have become effective. Our PIR

process includes a review of academic studies relevant to the particular Standard, surveys of users and preparers, a public request for information and some data gathering.

Expanding our existing capabilities

What I have described is not completely new to the IASB. We already do a lot of evidence-gathering. For example, the analysis presented in the Effect Analysis accompanying IFRS 9 *Joint Arrangements* documents trends in the use of joint arrangements over the last decade, as well as survey results identifying diversity in the application of IAS 31 *Joint Ventures*.

We also work with others. For example in December Oxford University is holding a research forum in London, in our offices. We are participating in that event. We also run, with the FASB, a conference, supported by the major accounting firms, on financial reporting issues, which is aimed primarily at the academic community. Our staff and IASB members also regularly participate in academic conferences such as those run by the European Accounting Association (EEA) and the American Accounting Association (AAA), as well as many other related events.

We have an active secondment programme for education Fellows and the initial work on the PIR of IFRS 8 *Operating Segments* has demonstrated the benefits of having an academic Fellow available to the staff.

We also have research resources within the IASB. We have access to electronic journals and company reports and a collection of accounting and economic texts. However, we do not have a full library function. These research resources are supplemented by less formal mechanisms. Many of the staff have access to libraries through their professional qualifications. We also have staff with some experience of research or academia, up to the doctoral level.

The picture I am trying to paint is of an IASB that does care about evidence-based standard-setting and one that has some research capability. What we want to do now is to give that research capability more structure and more substance. We can, and should, do better.

Establishing a research capability

In the first meetings of our committee we came to the following, tentative, conclusions:

- Research in the context of standard-setting should be practical and focused on providing IASB members with the information that they need to make decisions. Such research would also support IASB members in making evidence-based decisions. In addition to a review of current practice and consideration of existing work done internally and externally, research should seek to answer specific questions that arise in project-level work.
- There has been some misunderstanding about the IASB's plans. We need to clarify that we are not likely to be funding academic research and the initiative was not developed to assess how we can use academic research more extensively. It has a broader objective.
- The IASB should be a thought leader, but blue-sky thinking is beyond the capability of a research function based at the IASB.¹ I see our research capability as being more evolutionary than revolutionary. That is not to say that we would not encourage others to embark on blue-sky thinking.
- We need to develop a stronger (electronic) research library, as well as some printed reference material. In addition there is a need for a librarian (possibly part time) who would manage the library and assist in promoting effective use of the library, and access to other external resources, by IASB staff.
- More use could be made of academic fellowships, for specific projects (such as undertaking a review for a PIR or a new project).
- IASB staff will only perform a small portion of this potential research, or evidence-gathering. We will rely on others, such as academics, national standard-setters, practitioners, financial analysts and those applying IFRSs to help supply data and also to help with some of the analysis.

¹ Blue-sky thinking is thinking of ideas or solutions that are completely new and different from anything that people have thought of before.

Feedback from the Advisory Council

We welcome your input on the tentative conclusions noted in the previous section. We also want to hear your ideas about:

- (a) What you think the minimum requirements are for an IASB 'library'.
- (b) Suggestions for how we could gain better access to resources managed by other bodies.
- (c) How separate funding for the initiative could be sourced, without undermining the independence of the IASB.
- (d) What types of activities we should promote, to encourage research.
- (e) How we can communicate our research needs to interested researchers.
- (f) What projects, either thought leadership or non-standard-specific, the IASB should consider undertaking (or encouraging others to undertake) in the next three years.