

AGENDA PAPER

IFRS Foundation Trustees' meeting

Hong Kong

24 January 2013

Agenda paper 5

To: Trustees

From: Alan Teixeira

Date: 11 January 2013

Re: Establishing a dedicated research capacity for the IASB

Purpose

In February 2012 the Trustees concluded their review of the strategy of the IFRS Foundation. One of the recommendations was that, to provide leadership in intellectual thinking in financial reporting, the IASB should establish, or should facilitate the establishment of, a dedicated research capability.

Such a research capability could draw upon some combination of internal and external intellectual resources, including a more active engagement of the academic community. The Trustees indicated they would seek dedicated, separate financing to support such a research capacity.

The IASB formed a research committee to advise it on the development of a plan to create a research capability for the IASB. The committee concluded that the primary objectives of establishing a research capability are to:

- (a) support the IASB and its staff and so enable them to bring more evidence into the development of IFRSs; and

- (b) strengthen the IFRS Foundation's position as a leader in thinking in financial reporting. The research capability would do this both by contributing ideas and by encouraging debate.

In this paper I summarise our thinking about how we can improve our research capability. I say improve, because we have many examples of the IASB and its staff contributing to debates about financial reporting and showing leadership in thinking. We also have excellent examples of how the staff have incorporated research in the analysis provided to the IASB to help them make technical decisions. We also support several events that help improve the access of our staff to academics and other research professionals.

What we propose here is designed to build on these good examples, so that they become more engrained in the way we work. The proposals are also designed to provide us with access to a broader and deeper range of research resources, as well as encouraging research professionals to undertake more research that will benefit the IASB.

Summary of the main proposals

Awareness

Improve awareness by IASB members and staff of research resources, opportunities and methodologies, and also make them aware of limitations that may affect the conclusions that can be drawn from research. This would be done through targeted in-house support and attendance at conferences and workshops.

Internal resources

Create an internal research portal, providing IASB members and staff to provide a central search point to facilitate access to research resources.

Build on our existing electronic resources and create and maintain a small physical library of relevant financial reporting resources.

Create a new position for a Research Librarian, to manage the research resources, undertake document searches, train staff on search techniques and liaise with research professionals.

Create two Research Fellowships aimed at attracting visiting academics and other research professionals.

Research network

Create a research web page on the IFRS Foundation website, which would provide information relevant to the broader research community, supplemented with email alerts and a newsletter.

Foster research by improving awareness of, and providing adequate lead times for, issues relevant to researchers and the IASB.

Create special events hosted by the IASB designed to attract academics and other research professionals.

Funding

The IFRS Foundation should fund research activities out of its normal operating budget and should not seek dedicated, separate financing for research activities, contrary to what the Trustees had originally suggested. The Foundation should aim initially to dedicate around one per cent of its annual operating budget on its research capability.

Research capability

The focus of the IASB research capability should be on providing the IASB with more evidence to support its decision-making and on enabling the IASB to provide leadership in thinking on financial reporting matters.

Evidence

The IASB already brings evidence-based assessments to several threads of its work programme. However, the demands for the IASB to better justify its decisions are increasing.

One of the IASB's initiatives, resulting from the recently completed agenda consultation, is a greater emphasis on defining each financial reporting problem more carefully, and assessing potential solutions to it, before it considers adding a project to the work programme. Most project proposals already incorporate some information from academic and other research, as evidence that the financial reporting problem exists and needs to be rectified, but we believe we can improve this aspect of the analysis.

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 Interpretations Committee is now far more systematic about gathering evidence from a wide range of sources. In addition, the post-implementation review process includes a review of existing research.

The use of research and evidence-gathering is not new to the IASB. Much of our work already involves research and analysis. When we are developing Standards we seek information from users, preparers, national standard setters, auditors, regulators and others, undertake fieldwork, develop models and have wide-reaching consultative programmes. The changes we are making to the way in which the IASB develops its work programme are a response to increased demands for the IASB to provide a clearer rationale for the decisions it makes *and to support those decisions with evidence*.

Our proposals here are designed to make our research efforts more robust and efficient. We plan to focus on bringing more structure to our research capability, which will make it easier for the IASB to gain access to the wealth of expertise and information that exists among research professionals.

Thought leadership

The IASB also wants to be recognised as a thought leader in financial reporting matters. Feedback received during the Agenda Consultation was that the IASB

staff should not devote substantial amounts of time undertaking research themselves. Within the context of that consultation, it was clear that many respondents thought that IASB staff should focus on other priorities, such as the remaining joint projects with the FASB, the conceptual framework and implementation.

Accordingly, our initial focus is on developing thought leadership by fostering, sponsoring and participating in research initiatives. We have not precluded the possibility that IASB members and staff will develop and publish papers designed to stimulate debate on financial reporting matters.

Development of a plan to create a research capability for the IASB

We plan to build our research capability in three areas:

- developing staff capabilities;
- creating and maintaining research resources; and
- creating and maintaining a research network.

In assessing how to build research capability we considered both the use of existing resources within the IASB and the identification of additional resources needed.

Staff capabilities

It is important for the IASB staff and IASB members to be able to access relevant research. There are several dimensions to this, including search skills and the ability to interpret and apply the research to the particular financial reporting issue in an appropriate manner. Both aspects can be challenging. There are, literally, millions of research studies that relate to financial reporting. Finding research that is relevant to a particular issue requires specific skills. Academic research can also be difficult to read if the reader is not familiar with the language used in a particular research paradigm or with the research methodology.

Our plan is not to attempt to make all staff and IASB members capable of searching and analysing research studies. Instead, we view the staff and IASB members as team whose members have collectively a portfolio of skills—we will use staff and IASB members with research experience to help others. We also plan to bring additional research specialists (research fellows) into the Foundation to perform specific tasks and to help improve the awareness and understanding of how research can help IASB members and staff (professional development).

Research fellowships

We propose establishing a Research Fellowship programme, aimed at academics on sabbatical leave and other research professionals on secondment from their primary organisation (such as a professional body).¹

Research fellows would be part of the technical staff and would be assigned to specific activities of a project. In addition, a research fellow could have responsibilities for building the research network, including compiling and editing a newsletter for the IASB's research network.

We recently used a visiting academic to help with the post-implementation review of IFRS 8 *Operating Segments*. This academic fellow completed a review of research from the academic community, work-in-process papers and in the general press and presented this overview to the IASB. We would envisage having research fellows fulfilling that type of role on a regular basis, working on post-implementation reviews and projects in the research phase.

Professional development

The technical staff already benefit from a programme of professional development delivered by peer group experts, IASB members and others. That programme will be enhanced by increasing the number of researchers

¹ We currently have an Academic Fellowship programme, but this supports the education initiative and attracts academics with a stronger focus on teaching, rather than research.

interested in IFRSs delivering sessions to the staff about aspects of financial reporting research.

Research resources

An inventory of resources used by individuals, and legitimately available to all of our staff and IASB members, highlighted that collectively we have access to a broad and deep range of research resources. However, we currently have a very limited library or inventory of centralised research resources. The IASB had a library and librarian, but the library was small, incomplete and of little help to the staff. In 2005 the library closed.

The two main centralised electronic resources which we pay for are EBSCO (academic and profession journals) and Company Reporting (Annual report information). Although there are some gaps in our resources, the main problems are that IASB members and staff do not know about all of these resources and can encounter difficulties in accessing them if they do.

Accordingly, our plan is to focus initially on reducing the barriers to access.

The primary initiative will be an internal web-based research portal, which will provide a single point for facilitating access to research resources, including academic and professional research, company reports, IFRS resources and guidance from accounting firms. In addition, we fill gaps in our resources by creating and maintaining a small resource library.

Paul Pacter will be helping us establish and maintain the research portal, which we plan to launch in the first quarter of 2012.

Research librarian

We believe that research resources should be supplemented by the services of a research librarian. In addition to responsibility for any physical books or electronic reference resources, the duties of a research librarian would include:

- guiding staff to the most appropriate material for their research;

- advising staff on how to access and use printed and electronic collections most effectively;
- helping staff to use online catalogues;
- accessing other libraries, archives and institutions that might be useful in the research, or guiding staff to relevant websites and free on-line resources;
- completing initial research requests;
- compiling and distributing to the technical staff periodic updates on research activities outside the organisation;
- overseeing the internal web portal and creating and implementing desktop access to electronic resources; and
- managing an external research landing web page.

A research librarian would need to have a mix of skills, including librarianship, webpage skills and research capability.

Research network

Globally, there are examples of strong links between individual academics and standard-setting but these tend to be the exception. The links between accounting academics and other accounting professionals and standard-setters are simply not as strong as in disciplines such as law and medicine.

However, recently we have started to see some evidence of a growing interest by financial reporting researchers wanting to bridge that gap. In December 2012 we hosted around 30 research professionals to discuss ways for the IASB and researchers to work more closely together. We shared many of the ideas set out in this paper and there was strong support for our proposals.

We are aware that the incentive structures within academia do not encourage academics to undertake work that is immediately relevant to the IASB.

However, there are many practical ways by which the IASB can encourage academics to undertake work of benefit to standard-setting. We already undertake several activities focused on research. For example, we hold, jointly

with the FASB, an annual Financial Reporting Issues Conference in the US with around fifty academics. We plan to improve our links with researchers and academics. Specific proposals include:

- Creation of a research page on the IASB's website that gathers together information about the IASB and its activities that would be of interest to researchers and academics.
- Creation of a subscriber base for email alerts that would inform subscribers about matters of interest to researchers concerned with IFRSs. The subscriber base would draw initially on academics and other research professionals who are members of IFRS Foundation committees and on alumni. We plan to send out periodic newsletters and provide updates on IASB activities that should be of particular interest to researchers.
- Holding research activities such as symposiums or conferences on an ad hoc basis. This type of event would facilitate a dialogue about research interests, methods and trends in the current research community. We are also well advanced in plans for an annual event to honour the late Tommaso Padoa-Schioppa, which would include a Research Forum.
- Identifying a network of academics and national standard-setters who are able to provide English translations of foreign-language research.
- Maintaining a list of issues on which the IASB believes it would benefit from research.

Funding

Cost of research initiatives

The preceding paragraphs have set out the current commitments as well as the planned initiatives. We have estimated the total cost requirements as follows:

Item	Annual cost (in £)
New initiatives	
Research librarian <i>to manage electronic publications and direct staff in</i>	50,000

<i>effective use of other research resources</i>	
Other library costs <i>including costs of publications and physical set-up</i>	20,000
Website IT support (part-time)	20,000
Research fellows <i>to support post-implementation review and agenda proposals (including their travel expenses)</i>	70,000
Research conference attendance	25,000
Annual research symposia	20,000
Tommaso Padoa-Schioppa Memorial Lecture and Research Forum	25,000
Total incremental cost	230,000
Existing activities	
EBSCO	5,900
Company Reporting	3,500
Research fellows	30,000
IASB-FASB Financial Reporting Issues Conference	20,000
Total current expenditure	59,400
Total estimated annual costs	£289,400

This level of expenditure is equivalent to just over 1 per cent of the current IFRS Foundation budget, which we think is an appropriate annual target for these activities.

As I have emphasised, these targeted activities are only part of our overall ‘research-related’ activities. The extensive outreach, consultation, data gathering, technical analysis, fieldwork and other similar activities all add to our knowledge and support the standard-setting process. The new steps are designed to provide more rigour and structure to our technical thinking and to help the IASB staff access a broader and deeper range of research and researchers.

Dedicated, separate financing

In the Strategic Review the Trustees noted that ‘they would necessarily seek dedicated, separate financing to support such a research capacity ...’. We considered that recommendation but think that the IFRS Foundation should develop and maintain its research capability as part of its normal operating budget, for the following reasons:

- Research should be viewed as being an integral part of the activities of the IASB, rather than as a special, separate thread.
- Most of the initiatives outlined in this paper are operational in nature (a web-based portal, additional information management, additional staffing, and so on).
- Although there are research activities that might be considered special or separable, the likely total cost is less than half of one per cent of the operating budget. It would not be cost-effective to establish a separate research-related income stream for such a small level of expenditure.

Funding research as a normal part of operations would not preclude the IFRS Foundation from developing initiatives with other organisations, by either sharing costs or having the other organisation fund or sponsor an event or activity. For example, several accounting firms already contribute to the cost of running the FASB-IASB Financial Reporting Issues Conference.

There are also several research funds supported by accounting firms and professional bodies. Having the IASB associated with such activities, and seeking additional such activities, is consistent with the objective of accessing the network of research professionals. We are aware of the importance of protecting the independence of the IASB and the integrity of the research it uses, and keep that in mind when considering co-operative activities with other organisations.

Summary

In this paper I have set out our plans for establishing a credible research capability within the IFRS Foundation. It is a plan that will allow us to make

improvements in our research efforts quickly, but without overburdening the staff.

We welcome the feedback of the Trustees on this proposal.