

STAFF PAPER

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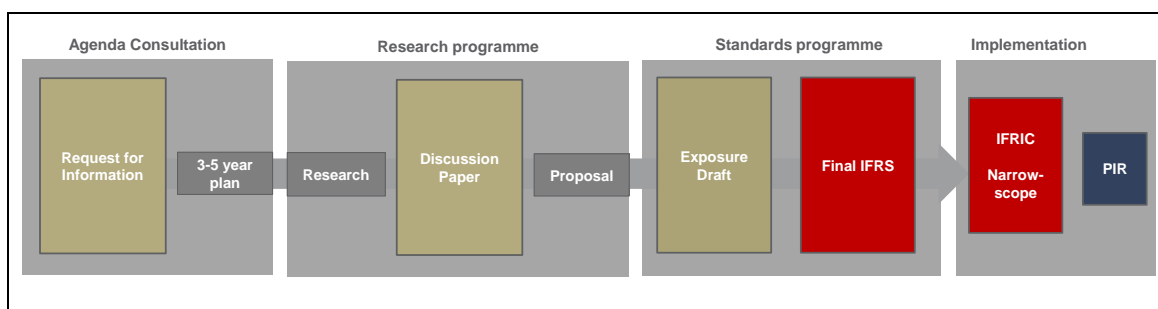
IASB Meeting

Project	Research Programme		
Paper topic	Project priorities		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Background

1. After the 2011 Agenda Consultation the IASB separated its work into three streams: Research, Standards and Implementation:¹



The Research Programme

2. The *Due Process Handbook* sets out the purpose of the Research Programme:

The purpose of the IASB's Research Programme is to analyse possible financial reporting problems by collecting evidence on the nature and extent of the perceived shortcoming and assessing potential ways to improve financial reporting or to remedy a deficiency. This analysis will help the IASB decide whether it should add to its standard-setting programme a project to develop a proposal for a new Standard or to amend or replace a Standard.

¹ The Conceptual Framework was also restarted as a separate stream. This paper focuses principally on changes to IFRS, through new or revised Standards.

The Research Programme also includes the consideration of broader financial reporting issues, such as how financial reporting is evolving, to encourage international debate on financial reporting matters.

To help the IASB in developing its work programme, technical staff are asked to identify, review and raise issues that might warrant the IASB's attention. New issues may arise from the three-yearly review of the technical programme or a change to the IASB's Conceptual Framework. In addition, the IASB raises and discusses potential topics in the light of comments from the ASAF, other standard-setters and other interested parties, the Advisory Council and the Interpretations Committee, as well as staff research and other recommendations.

3. The Research Programme therefore has several functions. It is where the IASB assesses the nature of possible financial reporting problems that it has identified or that have been brought to its attention. In simple terms, it is here that the IASB identifies the nature and extent of possible financial reporting shortcomings to help it decide whether it should attempt to develop new financial reporting requirements. The Research Programme is also where broader financial reporting matters may be considered, to encourage debate.
4. The Research Programme has a low threshold in terms of adding topics to be considered or analysed, and is fluid—ie the IASB has the authority to add items to the Research Programme as it sees fit. Its regular updates to the IFRS Advisory Council and interactions with other IASB groups such as ASAF, the Global Preparers Forum and the Capital Markets Advisory Committee ensure that the IASB is getting feedback on projects and priorities within the Research Programme. The three-yearly agenda consultation provides a more formal public assessment of the programme.
5. Assessing issues initially within the research programme does not mean that the minimum time required to develop a new Standard will increase. If the programme works as planned, average project time will be shortened, because the heavier investment in the front end of a project will pay dividends at the Exposure Draft and finalisation stages.

The Standards-level Programme

6. If a project is passed from the Research Programme to the Standards-level Programme, this means that the IASB will be proposing a specific change to IFRS requirements.
7. The *Due Process Handbook* sets out the criteria for when the IASB should develop a new IFRS or propose a major amendment to an IFRS.² The IASB is required to evaluate the merits of adding a potential item to its standards-level work programme primarily on the basis of the needs of users of financial reports, while also taking into account the costs of preparing the information in financial reports.
8. When deciding whether it should develop a specific proposal to changes the financial reporting requirements (ie publish an Exposure Draft), the IASB assesses:
 - (a) whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports;
 - (b) the importance of the matter to those who use financial reports;
 - (c) the types of entities likely to be affected by any proposals, including whether the matter is more prevalent in some jurisdictions than others; and
 - (d) how pervasive or acute a particular financial reporting issue is likely to be for entities.
9. The Research Programme is designed to ensure that the IASB has the information necessary to support is able to make that assessment.
10. The main output of the Research Programme will be Discussion Papers, setting out the problem being addressed and, in most cases, either proposing a solution to the problem or making a recommendation not to change the financial reporting requirements. Sometimes the research phase will lead quickly to standards-level

² There are separate criteria for maintaining the Standards through Interpretations or narrow-scope amendments. This paper focuses on major projects and therefore does not discuss implementation matters.

proposals, such as has been the case with the Disclosure Initiative. Publishing a Discussion Paper is not a mandatory step in the IASB's due process. If the IASB considers that it has sufficient information to support moving to a specific proposal, it can move straight to an Exposure Draft. In other cases, because of the potential extent of the financial reporting changes, the IASB will want more analysis to support a decision to propose a new IFRS.

Setting priorities

11. The IASB has a low threshold for putting issues into the Research Programme and criteria for elevating projects to develop new Standards or major amendments. However, it does not have criteria to help it determine which projects on its Research Programme should be given priority.
12. The absence in the *Due Process Handbook* of criteria for ranking projects was deliberate. When the Handbook was revised in 2013, we were concerned that having pre-set criteria for assessing priorities would be too restrictive. For example, giving priority to issues that affect a wide range of jurisdictions might make it difficult to justify addressing concerns that are important only to a small number of jurisdictions.
13. This issue was discussed during the 2011 Agenda Consultation. Respondents to that consultation, and participants in the public round-table meetings, supported the idea of the IASB having the flexibility to manage its agenda, as long as the IASB could explain why it was giving priority to a particular project (or projects).
14. At its June 2014 meeting, the IFRS Advisory Council suggested that the IASB should consider the following matters in determining the priority of research topics:
 - (a) the needs of the primary users of financial statements;
 - (b) the materiality/pervasiveness/newness of the topic; and
 - (c) the importance of research within the whole IASB work programme.
15. Although I agree that these are matters that the IASB should consider, the Advisory Council did not provide any advice on how much weight to give each matter.

Research projects

16. When the Research Programme was established the IASB placed twelve topics on its work plan, as a result of the 2011 Agenda Consultation.³ Rate regulation was added later in 2012.⁴

- Business Combinations Under Common Control
- Disclosure Initiative
- Discount Rates
- Emissions Trading Schemes
- The Equity Method
- Extractive Activities, Research and Development and Intangible Assets
- Financial Instruments with the Characteristics of Equity
- Foreign Currency Translation and High- and Hyper-inflation
- Income Taxes
- Liabilities—IAS 37
- Post-employment Benefits
- Rate-regulated activities
- Share-based payments.

³ The IASB made these decisions at its meeting in May 2012.

⁴ Because the project on Macro Hedge Accounting is at the Discussion Paper stage it is also, technically, part of the Research Programme. However, this project is part of the replacement of IAS 39 and our response to the financial crisis and it was under way before the Research Programme was established. Accordingly, it has been presented on the work plan along with the other parts of the IAS 39 replacement. I have excluded that project from this discussion because it has already reached its initial major milestone.

A portfolio approach

17. Before we discuss criteria for assessing the relative importance of individual projects, I think it is important to agree that the programme should be viewed as a portfolio of projects. The IASB might want to develop a few large projects that have global impact, some that affect a smaller number of jurisdictions and some that are more exploratory in nature. The balance of the portfolio could be influenced by many factors, such as if the IASB were to decide to institute a relative period of calm (by focusing on larger projects) or to decide to give greater emphasis to regional issues.
18. Consistently with this, I think it is helpful if we partition projects into short-, medium- and longer-term projects. A short-term project would be one in which we reach a major milestone within the next year (eg a Discussion Paper, a decision to do no more or a proposal to change a Standard). Medium-term projects involve current work but the next major milestone is likely to be beyond a year (but not beyond two years). A longer-term project is perhaps two to three years from a major milestone—but we would work on the topic so that we are much better informed when we are ready to consider moving it up the priority list.
19. These short-, medium- and long-term categories will not necessarily be correlated with the importance of the project. All short-term projects will be high priority projects. However, an important topic might be very challenging and complex and require a significant amount of research or outreach. It might therefore be an important but longer-term project. If the IASB thinks a longer-term project is particularly important, and it also assesses that the project time line can be shortened by allocating additional resources to that project, it might rank it higher than other longer-term projects or even ahead of some medium-term projects.

Factors

20. There are many factors the IASB could consider to help it set priorities. We could identify all of these factors and develop a weighting system to rank projects, but I think we should avoid over-engineering the process. The factors I have listed are not

independent, and in some cases they subsume (are proxies for) other factors (see paragraph 33).

21. My assessment is that all of the factors people have suggested to me probably fit under four headings:

- (a) Demand
- (b) Impact
- (c) Timing
- (d) Resources.

Demand

22. What demand is there for the IASB to address a particular issue? Where is the demand coming from? Presumably the IASB should give more weight to requests from users and securities regulators, although demand from preparers is also an important factor. If many parties are seeking change that, potentially, makes it easier to get engagement with constituents.

23. Demand can also come from an assessment of current practice. Sometimes there are known gaps in IFRS requirements but for which the Agenda Consultation reveals that apparent demand from investors and preparers for new requirements is low. The accounting for exploratory activity fits into this category. Similarly, a disproportionate level of interpretation requests in relation to a Standard is also possible evidence of a need to undertake a more fundamental review of that Standard. The equity method project is an example for which the demand comes mainly from concerns arising from requests to the IFRS Interpretations Committee.

24. The research projects for which there is greater demand would normally be given priority over projects for which demand is lower.

Impact

25. On the face of it, the greater the potential impact of a financial reporting change, the more worthwhile the project. Revenue, Leases and Insurance Contracts are examples

of high-impact projects. Expressed from the alternative perspective, a project that does not change the financial reports (or lower the costs of compliance) would be difficult to justify.

26. Research projects that are more likely to lead to significant improvements to financial reporting should normally be given higher priority.

Timeliness

27. How quickly is it likely that the IASB can conclude the research phase of a project? The conclusion of the research phase might take the form of a decision that the problem being considered does not warrant standard-setting action (or additional research), or it could be that the research phase involves developing a specific proposal that could be implemented quickly. In the former case we would be addressing a perception without needing to develop a standards-level solution.
28. I assume that timeliness is affected by the complexity of the issue (whether the complexity is a result of complex transactions, globally different variations in transactions or challenging conceptual issues). Accordingly, rather than specifying complexity as a separate factor, I have incorporated in within timeliness.
29. Research projects that can be concluded quickly would normally be given a higher priority.

Resources

30. A variety of resources are required to complete a project. It is not merely staff resources, but also IASB time and demands on our stakeholders. The resource demands of a project have quantity and structural dimensions. Some projects need a large number of staff (quantity) and others require specialist staff (structural).
31. The required resources will often correlate with other factors. For example, the greater the likely *impact* of a Standard, the more likely it is that we will need a larger team to manage outreach or to build a case for a major change in reporting requirements. Complexity can mean we need specialist staff. In addition, political sensitivity could mean that we need additional staff to undertake outreach.

32. I think of resources as constraining our priorities rather than driving them. The IASB could decide to give a project a higher priority if it is less resource-hungry. On the other hand, you might decide that a high-impact project that demands a lot of resources is worth putting ahead of several smaller lower-impact projects. Or you might decide to put several smaller projects ahead of one large project.

Dependencies and relationships

33. A large and complex project will often require more resources (staff, Board time and constituent time). Being large and complex can also affect the timing of the project. A project with high impact might need additional resources, and take longer, because high-impact projects are often the ones with the greatest change management requirements (meaning more outreach), because these projects are likely to have strong vested interests or long-embedded practice that we might want to change. The timeliness of a project can also be affected by its complexity—more complex projects are likely to take longer and have greater demands on specialist resources.
34. The level of resources can influence the timeliness of a project. For example, the Conceptual Framework project is keeping to its timetable by ensuring that it gets priority on resources. In other cases, we might not currently have the specialist staff to lead a project, which would obviously affect timing.

Project priorities

35. Considering each project using these factors is not a straightforward exercise. Sometimes it is necessary to do some exploratory work on an issue to get enough information to be able to make an informed assessment about the possible scope of a project. Once this initial work has been undertaken, the IASB may decide to re-prioritise the project—the analysis may identify a quick and simple solution or indicate that the problem is more difficult than initially thought.
36. In the light of what I know about each of the issues, my recommendation is to group the projects as described next. The appendix provides some additional information and assessment related to each of the projects.

Shorter-term projects

Research likely to lead to standards-level projects (in alphabetical order)

- Business Combinations Under Common Control
- Disclosure Initiative
- Equity Method
- Financial Instruments with the Characteristics of Equity
- Rate Regulation

Research for which the outcome is less certain (in alphabetical order)

- Discount Rates
- Foreign Currency Translation and High- and Hyper-inflation

Medium-term (in alphabetical order)

- Emissions Trading Schemes
- Liabilities—IAS 37

Longer-term (in alphabetical order)

- Extractive Activities, Research and Development and Intangible Assets
- Income Taxes
- Post-employment benefits
- Share-based payments

37. Within these bands I would, for example, make the Disclosure Initiative the top short-term priority because the impact is high and it will also have very positive effects. I also want to give priority to the KASB's work on foreign currency accounting and to South American hyperinflation issues. The standard-setters from those regions have completed some helpful research which should allow the IASB to get to a conclusion on those matters relatively quickly.

38. Within the longer-term projects I consider Post-employment Benefits to be the highest-ranking project, because of the known demand that has been signalled both from the Agenda Consultation and by the level of interpretations requests. I would rank Extractive Activities, Research and Development and Intangible Assets next, because of the known gap in IFRS requirements.

Staff recommendation

I recommend that the IASB should:

- (a) prioritise its research projects as set out in this paper, using *demand*, *impact* and *timeliness* as the main determining factors, with resource considerations as a constraint; and
- (b) publish a priority list on the IASB website.

Next steps

39. If the Board agrees with the recommendation, we will update the project pages and add a section on project priorities to the Research Programme introductory section on the site.
40. The staff will update the Board periodically on progress in the overall Research Programme.

Appendix

Business Combinations under Common Control (BCUCC)

Demand

- A1. BCUCC attracted the most comments in the Agenda Consultation. IOSCO has asked us to give priority to a particular BCUCC scenario involving a spin-off using a new company to house parts of a business transferred into the 'newco'. We have also had strong requests from emerging economies to address BCUCC, because of their prevalence in transition economies.

Impact

- A2. We could remove a significant uncertainty about the accounting for restructuring and by entities that are sold by way of an IPO.

Timeliness

- A3. If the project expands to look at *transactions* under common control, it could be a large and complex project. However, a narrower-scope project should allow the IASB to make recommendations relatively quickly, with the aim of moving to a standards-level project.

Resources

- A4. This depends on the scope. From a staffing needs perspective, a team of two to three people should be able to manage the project if we keep the scope narrow. It also depends on the outcome. If the IASB decides to require a greater use of 'new start' accounting for IPOs we will need to put greater effort into change management, particularly because this would create a conflict with US GAAP.

Conclusion

- A5. Short-term with a high priority. There is high demand, including a special request from IOSCO and requests from emerging economies. It also has the potential to remove significant diversity in practice.

Disclosure Initiative

Demand

- A6. Unequivocal demand from all sectors for the IASB to take a lead in helping improve the quality of financial report disclosure.

Impact

- A7. The impact is potentially high, if we can help entities improve the readability of their financial reports.

Timeliness

- A8. We have several, relatively, quick wins. It is also politically positive for us to be seen to be making progress in this project.

Resources

- A9. There will be a high demand for staff resources, simply because of the scale of the issues being examined. In addition, the less work we are able to incorporate in the Conceptual Framework, the more the Disclosure Initiative will probably need to pick that work up instead. It is also likely to be reasonably demanding on Board time both in outreach and decision-making.

Conclusion

- A10. Short-term and top priority. There is high demand and the impact should be positive and significant. The scope of the project has also been designed to ensure that different threads can be delivered quickly.

Discount Rates

Demand

- A11. There seems to be a widespread perception that there is a ‘problem’ with how discount rate requirements are set out in IFRS. However, it is not obvious to me that we have a deep or pervasive problem.

Impact

- A12. The impact is unclear. If we find that we do not have deep-rooted problems, the impact would be a better understanding of why discount rates vary between Standards and why that variation is, in fact, entirely justified.

Timeliness

- A13. I think we can get to a point in this project quite quickly where we have documented how discount rates are used in IFRS and where there are inconsistencies, if there are any. Once we reach that point we will be in a position to decide whether we need to:
- (i) do some more fundamental thinking; or
 - (ii) perform some maintenance to address some drafting inconsistencies;
or
 - (iii) decide that we are satisfied that the research phase closes the project.

Resources

- A14. One person has been allocated to this project. If we keep the scope to that set out in the paper the IASB discussed at its June meeting, this should be sufficient. I don’t think it will place great demands on Board time.

Conclusion

- A15. Short-term. There are widely held perceptions that we have a problem with discount rates that we should address. We should be able to get to our first milestone relatively quickly.

Emissions Trading Schemes (ETS)

Demand

- A16. Demand seems to vary, as the appetite for ETS changes—some jurisdictions have ‘abandoned’ their schemes. Having said that, we know that some jurisdictions would like us to address this accounting problem. My assessment is that it is likely that ET-type schemes are likely to become more prevalent.

Impact

- A17. This is difficult to assess. If such schemes become more economically important, then having a Standard to deal with how they are reported could be considered to be high-impact. It could reflect positively on us to develop good financial reporting in anticipation of the increased use of such schemes.

Timeliness

- A18. This is also difficult to assess. We have been doing some thinking about the feasibility of developing a *regulated activities* Standard that would house the accounting requirements for rate regulation and for ETS. There are similarities between these types of activity that we could exploit. If our exploratory work indicates this to be a tenable solution, we might be able to develop a proposal relatively quickly, including subsuming (ie replacing) IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* at the same time.

Resources

- A19. We have already done a lot of work on this problem. Jane Pike and Natasha Dara are allocated to look after this project, although neither has yet been able to give any time to it. I am discussing with EFRAG and the ANC the possibility of having those bodies to undertake some analysis for us, particularly on European schemes.

Conclusion

- A20. Medium-term priority. We should be proactive in this area, because ETS accounting issues are likely to become more pervasive. We also have an opportunity to take a

step back and possibly bring a suite of improvements relatively quickly, but we need to think through the analysis first.

Equity method

Demand

- A22. My assessment is that demand for a fundamental review of the equity method is not high—it might be because of fear of the outcome of such a review. But demand for us to address application issues is high.

Impact

- A23. At a minimum, we could reduce compliance costs and clear up a lot of interpretation issues. A more fundamental review of the equity method could have larger implications.

Timeliness

- A24. I think we can get to some basic recommendations quite quickly.

Resources

- A25. I think it is adequately staffed for now. Additional staffing and the level of Board time will depend on how fundamental the review is. At this stage we are keeping the scope of the review relatively narrow.

Conclusion

- A26. Short-term. The project has the potential to address practice issues and, potentially, lead to reduced compliance costs.

Extractive/R&D/Intangibles

Demand

- A27. We do not have a Standard for extractive activities. It is a major gap in our requirements. On the other hand, practice is deeply entrenched and external demand is not obvious.

Impact

- A28. The impact is potentially high. In many ways it is like the impact that a new Insurance Contracts Standard will have when we complete that project.

Timeliness

- A29. This will take time. Even though we have a Discussion Paper it will take some time to crank up the project.

Resources

- A30. High resource demand because of the complexity and the need to bring constituents with us.

Conclusion

- A31. Longer-term. Practice is diverse and deeply embedded, requiring significant change management effort. However, I think it would be irresponsible not to take this on. The issue is how. My view is that rather than focusing on extractive activities, the IASB should take a more holistic view of prospecting/research and development activities—extractive activities, pharmaceuticals etc.

Financial Instruments with the Characteristics of Equity

Demand

- A32. We have been patching up IAS 32 for many years. Ideally we should replace IAS 32 altogether. The research is focusing on whether or how we can do that, in conjunction with the Conceptual Framework project.

Impact

- A33. This is difficult to judge. We could end up not changing practice very much. However, even recommending that we replace IAS 32 with a Standard that was more principle-based and addressing issues such as puts on NCI could be viewed as providing a strong base. It would also be an opportunity to ‘apply’ the Framework to a Standard. We also think we could consider the implications for IAS 33 *Earnings per Share* as part of the project.

Timeliness

- A34. We think we can get a Discussion Paper out when we release the Exposure Draft of the Conceptual Framework.

Resources

- A35. It is a specialist area, which is likely to increase the demands on Board time.

Conclusion

- A36. Short-term. The project links well with the Conceptual Framework. We should at least be able to address known problems (eg NCI puts).

FOREX/Inflation

Demand

- A37. No pervasive demand, but strong call from KASB. We asked the KASB to do work in this area and have yet to consider their work. We have a similar issue with inflation accounting in some South American countries.

Impact

- A38. Unclear until we know more about possible problems.

Timeliness

- A39. We should be able to deal with the KASB and South American issues relatively quickly. Replacing or revising IAS 21 or IAS 29 would be a longer-term project.

Resources

- A40. Probably at the low end.

Conclusion

- A41. Short-term priority is to consider the KASB and South American work. Lower priority to review IAS 21 and IAS 29 more fundamentally.

Income Taxes

Demand

- A42. No real demand today, but we tried, unsuccessfully, to improve IAS 12 a few years ago. It is a Standard that has some complexities and that many people find difficult to explain. The fact that the UK and several other jurisdictions have tried to develop simpler (and more relevant) models indicates a ‘latent demand’.

Impact

- A43. The impact is potentially high, if we were to replace IAS 12.

Timeliness

- A44. This is not a project with quick wins. Any fundamental review would be a major undertaking.

Resources

- A45. If we put this on the longer-term list we can start to assess the nature of any problems with IAS 12, using national standard-setters. I have two potential volunteer national standard-setters.

Conclusion

- A46. Longer-term, develop thinking about whether to replace or revise IAS 12.

Liabilities—IAS 37

Demand

- A47. I would characterise demand as ‘low’ because I think most people realise that the problems we have previously tried to address in IAS 37 are likely to be ‘resolved’ in the Conceptual Framework project.

Impact

- A48. The impact is potentially high, because it would address some problematic areas that we have struggled with for many years.

Timeliness

- A49. Potentially a quick process once work on the Framework is ‘completed’.

Resources

- A50. Likely to be relatively low. Joan Brown is notionally allocated to this project and is keeping it in mind as she works on elements in the Conceptual Framework.

Conclusion

- A51. Low priority today, but should be ‘reactivated’ on the basis of the Conceptual Framework outcomes. I expect us to think about the Standards-level implications as we develop the Framework.
- A52. I think early reactivation is important because this could be an example of a good outcome from applying the new Framework.

Post-employment Benefits

Demand

- A53. Strong demand from the agenda consultation. We also ‘committed’ to undertake another phase of this project.

Impact

- A54. The impact is potentially high, if we can address the accounting for newer schemes.

Timeliness

- A55. Our work on interpretations show that this could be challenging and could therefore take some time, particularly understanding different types of schemes.

Resources

- A56. Medium.

Conclusion

- A57. Longer-term, but a high priority. The work will be undertaken mainly by IASB staff.

Rate-regulated activities

Demand

- A58. High from affected entities and the DPOC has asked us to ensure that we deal with this as quickly as possible.

Impact

- A59. The impact is potentially high.

Timeliness

- A60. The Discussion Paper already scheduled for release soon.

Resources

- A61. Medium (two staff) and average IASB time.

Conclusion

- A62. Short-term.

Share-based Payments

Demand

- A63. Several years ago we asked the ANC to review IFRS 2, in response to perceived concerns about problems applying the Standard. The IASB did nothing with this work. The purpose of this research project is to assess whether there are application problems. I do not see the demand as high, but in the absence of a post-implementation review, this is an opportunity to assess IFRS 2.

Impact

- A64. Unclear until we understand the issues better, but it is possible that we could identify some improvements that would reduce complexity.

Timeliness

- A65. Because we don't know the specific concerns (in contrast to most other projects) it is likely to be some time before we could publish a consultative document.

Resources

- A66. Could be high because of the complex nature of many of the transactions within the scope of IFRS 2.

Conclusion

- A67. Longer-term. This is a project that would benefit from help from National Standard-setters.