

GPF meeting, 6 November 2014  
Agenda paper 3

## Research activities

Please note that those slides include additional information in the notes.  
Please consider this when printing materials.

## The objective of the session

2

1. to inform about the change in how we develop Standards.
  - Broad pool of research projects
  - Greater emphasis on evidence supported decision making
2. to solicit feedback on where in the development of Standards you think preparers can make the best contribution

## Overview

3

- Background
  - The Standard-setting process
  - The Research programme
  - Evidence-supported Standard-setting
- Research projects
- Questions for the GPF

© IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. [www.ifrs.org](http://www.ifrs.org)



Note to GPF: The first part of this presentation is mainly for background. It is a reminder of how we are changing the way we consider financial reporting issues – placing more emphasis on establishing whether there is a problem that needs addressing , and can be addressed.

International Financial Reporting Standards

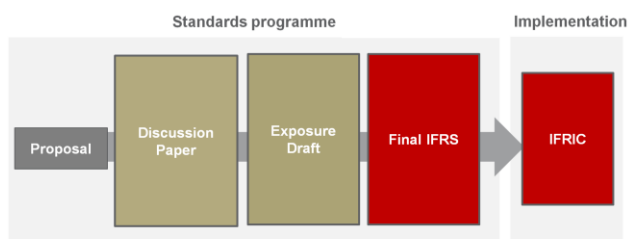
# The Standard-setting process

© IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. [www.ifrs.org](http://www.ifrs.org)



## The standard-setting process: 2001 to 2006

5



© IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. [www.ifrs.org](http://www.ifrs.org)



Note to GPF: The work programme prior to 2011 was dominated by the improvements programme (the core set of standards identified by IOSCO) and the MoU with the FASB. Our process was to develop a proposal and work through the steps identified on the slide.

## Problems the changes to standard-setting are designed to address

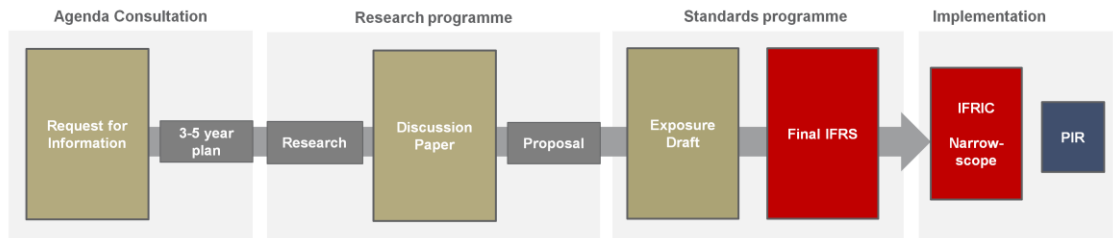
6

- Projects not being completed
- Projects not being completed on time
- Re-exposure of documents, with major changes
- Endorsement problems, and increased demands from the IFRS community to justify change
- Fear that once a project is on the IASB's work programme a new Standard is inevitable
- Limited resources (of the IASB and of the wider IFRS community)

**Note to GPF:** These are some of the symptoms (problems) we are trying to address by changing the standard-setting process.

## The standard-setting process: currently

7



- In 2007, Trustees introduced Post-implementation Reviews
- In 2011, Trustees introduced the three-yearly public Agenda Consultation
- In 2012, Trustees supported a move to more **evidence-supported decision making**, with more emphasis put on the research phase of the process

Evidence supported decision making

© IFRS Foundation, 30 Cannon Street | London EC4M 6XH | UK, [www.ifrs.org](http://www.ifrs.org)



Note to GPF: This slide shows the new process. The separation of the four phases is deliberate. There is no guarantee that an issue being considered in the research phase will lead to standard-setting activity.

International Financial Reporting Standards

# The research programme

© IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. [www.ifrs.org](http://www.ifrs.org)



## Research programme

9

- A broad research and development programme
- Emphasis on defining the problem
  - Identify whether there is a financial reporting matter that justifies an effort by the IASB
  - Evidence based
- Leads to project proposals or immediate standard-setting activity:
  - do more research; or
  - add to the Standards-level programme, or
  - recommendation not to develop an IFRS
- The programme is designed to **shorten** the time needed to develop improvements to financial reporting, by:
  - Clarifying the problem up front, before a solution is developed
  - Feeding manageable projects into the Exposure Draft phase on a timely basis (eg the *Disclosure Initiative*)

- The research programme is new, and some of the outputs will be new.
- There is scope for 'traditional' *Discussion Papers* as well as smaller and more focused consultative documents:
  - Research papers
  - Requests for Information
- There is also scope for more focused informational documents, which do not actively seek formal responses:
  - Status reports
  - Feedback statements
- The key is:
  - to get timely and helpful input; and
  - to effectively communicate progress and decisions.

International Financial Reporting Standards

# Evidence-supported Standard-setting

© IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. [www.ifrs.org](http://www.ifrs.org)



## Why evidence is important

12

- Provides more objectivity, rather than relying on assertions
- The IASB is increasingly being asked to justify its decisions
  - Leases
  - Revenue
- Effects analysis

© IFRS Foundation, 30 Cannon Street | London EC4M 6XH | UK, [www.ifrs.org](http://www.ifrs.org)



Part of our efforts has been focused on building our research capability and our interactions with the broader research community.

Among the steps we have taken this year are:

- Hired a research resource manager to look after our resources and help staff access information;
- Established an internal Research Portal, which gives us access to academic and professional research, business articles, financial statement data and some economic data;
- Established a new Research Centre ([IFRS Research Centre](#)) aimed at academics and other research professionals;
- Published our first *Research Roundup*. We are aiming to publish a new issue every six months; and
- Started to receive applications from academics for research fellowships.

These steps are aimed at increasing our ability to consume, rather than create, research. We are helping staff and IASB members to become more aware of how independent research can inform and support their decisions, as well as the pitfalls.

We are engaging positively with the broader research community. The IAAER and the European Accounting Association, both of which have representatives on the Advisory Council, have been helpful and supportive in this process.

We have established a research forum as a catalyst for generating research that might prove helpful to the IASB. We held this at SAïD Business School at Oxford University last week. The focus of the papers is our work on the Conceptual Framework and it is being held in conjunction *Accounting and Business Research*.

## Where evidence is helpful

- Identifying financial reporting problems
  - Financial reporting differences
  - Scale
  - Evidence of estimation error
- Assessing solutions
  - Surveys
  - Decision experiments
  - Evidence of how information is incorporated by markets
  - Fieldwork
    - Systems testing
    - Testing draft words
    - Financial statement simulations
- Implementation
  - Evidence of diversity

- IASB initiated work
  - Fieldwork
  - Reviews of financial statements
  - Modelling
- Existing academic and other research
  - Limitations
  - Risks
  - Benefits
  - Examples

## Research projects

### ***Setting priorities***

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.

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.

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).

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:

- the needs of the primary users of financial statements;
- the materiality/pervasiveness/newness of the topic; and
- the importance of research within the whole IASB work programme.

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.

### ***A portfolio approach***

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.

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.

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**

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 34).

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

- Demand
- Impact
- Timing
- Resources.

#### ***Demand***

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.

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.

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

### ***Impact***

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.

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

### ***Timeliness***

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.

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 it within timeliness. Research projects that can be concluded quickly would normally be given a higher priority.

### ***Resources***

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).

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.

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, it might decide that a high-impact project that demands a lot of resources is worth putting ahead of several smaller lower-impact projects. Or it might decide to put several smaller projects ahead of one large project

### ***Dependencies and relationships***

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.

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**

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.

## Priority projects

16

<b>Business combinations under common control</b>
<b>Disclosure Initiative</b>
IAS 1 Amendments
Reconciliation of liabilities from financing
Materiality
Principles of disclosure
<b>Discount rates</b>
<b>Dynamic risk management</b>
<b>Equity method</b>
<b>Financial Instruments with the Characteristics of Equity</b>
<b>Foreign currency translation</b>
<b>High inflation</b>
<b>Rate-regulated activities</b>

© IFRS Foundation, 30 Cannon Street | London EC4M 6XH | UK: www.ifrs.org



### High priority projects

-The project on **Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging** is also classified as being part of the research programme because it is in the Discussion Paper phase. The Discussion Paper is out for public comment, with comments due by 17 October 2014.

-As we will be discussing with you in this GPF meeting, we have been working on a project on **Business combinations under common control** during 2014. There is particular interest from IOSCO and the Emerging Markets Group in this project. We have undertaken outreach with regulators, preparers, investors and auditors on the best way to approach this project. We expect to develop a Discussion Paper in the first half of 2015.

-The **Disclosure initiative** is part of the research programme, and currently is being given the highest priority because of its cross-cutting nature and because the IASB thinks it can make meaningful improvements to disclosure requirements relatively quickly. It was also identified through the Agenda Consultation process and the subsequent Disclosure Discussion Forum as a high priority project.

-The IASB has discussed the preliminary work on **Discount rates**. The staff are continuing to work on this project, and have been using the analysis presented previously to the IASB as a basis for discussion with other parties. The **Equity method of accounting** project is in a similar position. The staff plan to take the next papers to the IASB for public discussion before the end of 2014.

-Work on **Financial instruments with characteristics of equity** is linked to the Conceptual Framework project. Our goal is to develop a Discussion Paper on this important project. This project is being discussed by ASAF in September.

-Some issues related to **Foreign currency translation and Inflation** have been raised with the IASB by national standard-setters. Staff have recently been allocated to both threads. We plan to bring a paper to the October 2014 IASB meeting on foreign currency—relating to a request made to the IASB by the KASB. Hyperinflation is being discussed at ASAF in September, at the

request of the Brazilian Standard-setter. We plan to bring a paper to the IASB before the end of 2014 recommending how the IASB should respond to requests that we amend the scope of IAS 29 *Financial Reporting in Hyperinflationary Economies*.

-A Discussion Paper on **Rate regulated activities** was published on 17 September and we will also be further discussing this project at this meeting.

## Other projects

17

### Medium priority projects

- Liabilities – amendments to IAS 37
- Performance reporting
- Emissions trading schemes

### Longer term projects

- Extractive activities / Intangible assets / R&D
- Post-employment benefits
- Income taxes
- Share-based payments

© IFRS Foundation, 30 Cannon Street | London EC4M 6XH | UK, www.ifrs.org



### Medium priority projects

-A project on **Liabilities—amendments to IAS 37** [\*Provisions, Contingent Liabilities and Contingent Assets\*](#) was suspended in 2010. Some preliminary work has begun to assess the implications of the IASB decisions in the Conceptual Framework. We expect to bring papers to the IASB before the end of 2014. Concurrently, we have been collecting more detailed data about how IAS 37 is being applied as well as practice problems relayed to the IFRS Interpretations Committee.

-A project on **Performance reporting** was added to the research programme in July 2014. Some preliminary work has been undertaken to develop a scope paper for this project and to assess ways to educate the IASB and interested parties on the work previously undertaken in the Financial Statement Presentation project. The project has been classified as medium term because the IASB did not want work on this issue to delay the Disclosure Initiative or the Conceptual Framework. Although there is support from many investors for the IASB to undertake more work on this area the project will not have the same scope as the suspend FSP project, because many threads of the FSP project have already been subsumed by the Conceptual Framework project and the Disclosure Initiative.

-The **Emissions Trading Schemes** project was also suspended in 2010. We have allocated staff to this project, and started to work with EFRAG and IPSASB on background material. The IASB did a lot of work documenting and analysing schemes. That work is being updated. We have also started to think about emissions trading schemes (ETS) in the light of the rate regulation discussions. ETS is on the agenda at the world standard-setters meeting in London. We expect to start public discussions papers for the IASB by the end of 2014.

### Longer term projects

-We have started to plan the scope for a project on **Income Taxes**. The project will be staffed by our Asia-Oceania office, working closely with the London staff. As part of our consultations with investors, it is tentatively scheduled to be discussed with the GPF in February 2015.

-Work on a project to review the accounting for **Post-employment benefits** (including pensions) has

been progressing well. The IASB has started to consider papers setting out the main issues to be considered, and we have begun seeking input from our consultative groups.

-Two projects have yet to commence work, pending availability of staff. Work on developing plans for **Extractive activities/Intangible assets/R&D activities** and **Share-based payments** will start once staff become available.

International Financial Reporting Standards

## Discussion points for GPF Members

© IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. [www.ifrs.org](http://www.ifrs.org)



## Questions for GPF members

19

Question 1: Timing – when are the best times to engage with preparers?

- Early in the research (identifying problems with financial reporting)
- Development (assessing potential solutions)
- Post-implementation (has the change helped your assessments?)
- Throughout the various stages of the process

Question 2: Evidential challenges – how do we know the views are representative?

- Selection bias (we speak to those who want to speak to us)
- Small sample risks

© 2014 IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. [www.ifrs.org](http://www.ifrs.org)



Notes to GPF: There are two issues on which we would welcome your feedback.

**Timing:** We have traditionally sought preparer input as we develop solutions. We think that your input could be more effective earlier—in the research phases. The nature of the input will differ, because we will be trying to identify reporting deficiencies from the start. Do you agree that we should involve you earlier? Please note that you have not yet been asked to comment on all of the projects in the research programme. This usually reflects where we are in our analysis. We will bring issues to you when we think preparer's input is the most valuable.

**Evidential challenges:** Almost all our sources suffer from some sort of selection bias. Preparers who send in comment letters self-select. Additionally, we face the same problem any 'researcher' faces in assessing whether what we have heard can be generalised—ie is the information from preparers broadly representative?

individual comments  
view  
expressions  
feedback a  
question  
expressions of individual vie  
individual comments  
questions or  
individual  
comments  
expressions of  
individual views  
questions  
expressions of individual views  
individual comments  
questions or individual views  
feedback  
questions  
feedback  
questions or comments  
expressions of individual views  
questions  
expressions of individual views  
questions and viewpoints  
feedback and comments  
questions  
expressions of individual views  
questions or individual comments