

AP 5 Research Projects and Investor Involvement

CMAC Meeting

October 2014

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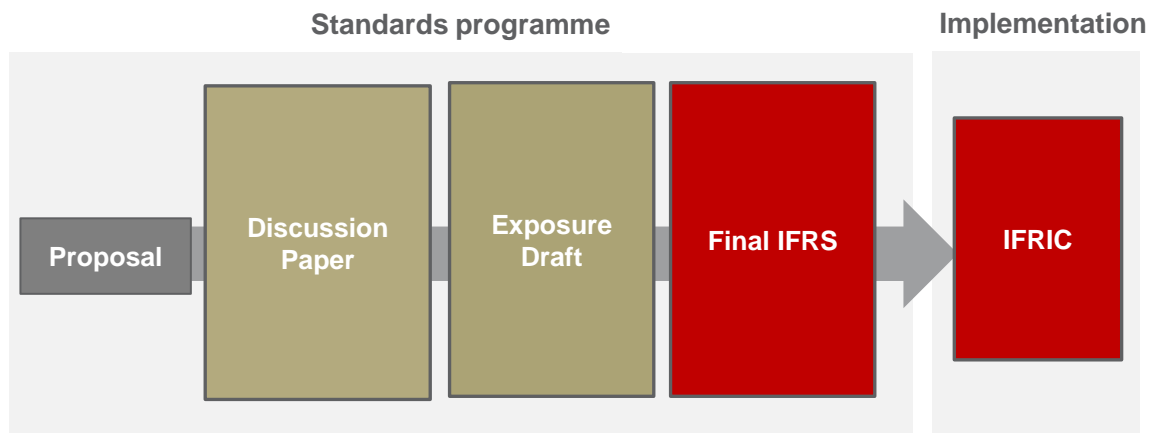
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- Background
 - The Standard-setting process
 - The Research programme
 - Evidence-supported Standard-setting
- Research projects
- Questions for the CMAC

The Standard-setting process

The standard-setting process

2001 to 2006



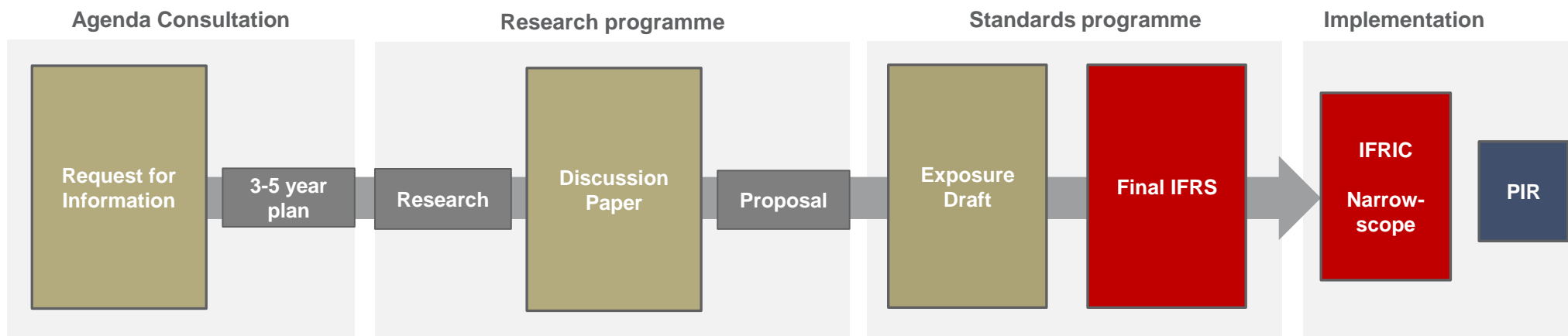
Problems the changes to standard-setting are designed to address

- 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)

The standard-setting process

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Today



- 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

International Financial Reporting Standards

The research programme

Research programme

- 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.

Evidence-supported Standard-setting

Why evidence is important

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

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

International Financial Reporting Standards

Research
projects

Priority projects

Business combinations under common control

Disclosure Initiative

IAS 1 Amendments

Reconciliation of liabilities from financing

Materiality

Principles of disclosure

Discount rates

Dynamic risk management

Equity method

Financial Instruments with the Characteristics of Equity

Foreign currency translation

High inflation

Rate-regulated activities

Other projects

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

Discussion points for CMAC Members

Input from investors, analysts and other users

- Timing – when are the best times to engage with investors?
 - 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
- Nature of input– what is effective?
 - Deeper one-to-one discussions (eg. assessing models)
 - Meetings
 - Surveys
- 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
- Reconciling what investors tell us with archival research (the importance of collecting corroborating evidence).

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