

## International Financial Reporting Standards



# The Research Programme

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# Overview

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- The Research Programme
- Prioritising research projects
- Research projects
- Completed research

## Advice being sought

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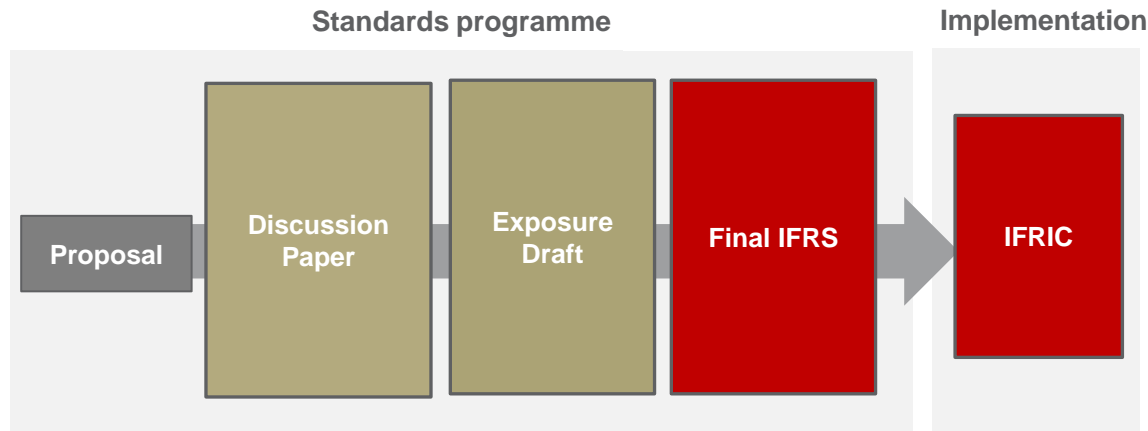
- Research project priorities:
  - Is the objective of the research programme clear, and is the IASB explaining the nature and status of its research in a helpful way?
  - Do you have any feedback on the developing balance of the portfolio of projects?
- Completed research work
  - Does the Council have advice or comments on the projects for which the IASB has assessed that the initial research phase has been completed?
- Agenda Consultation
  - Is the relationship between the Research Programme and the Agenda Consultation clear?

*Note: This is a question for the session on the Agenda Consultation.*

# The Research Programme

# The standard-setting process

## Recall - 2001 to 2006



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

# Problems

- 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)

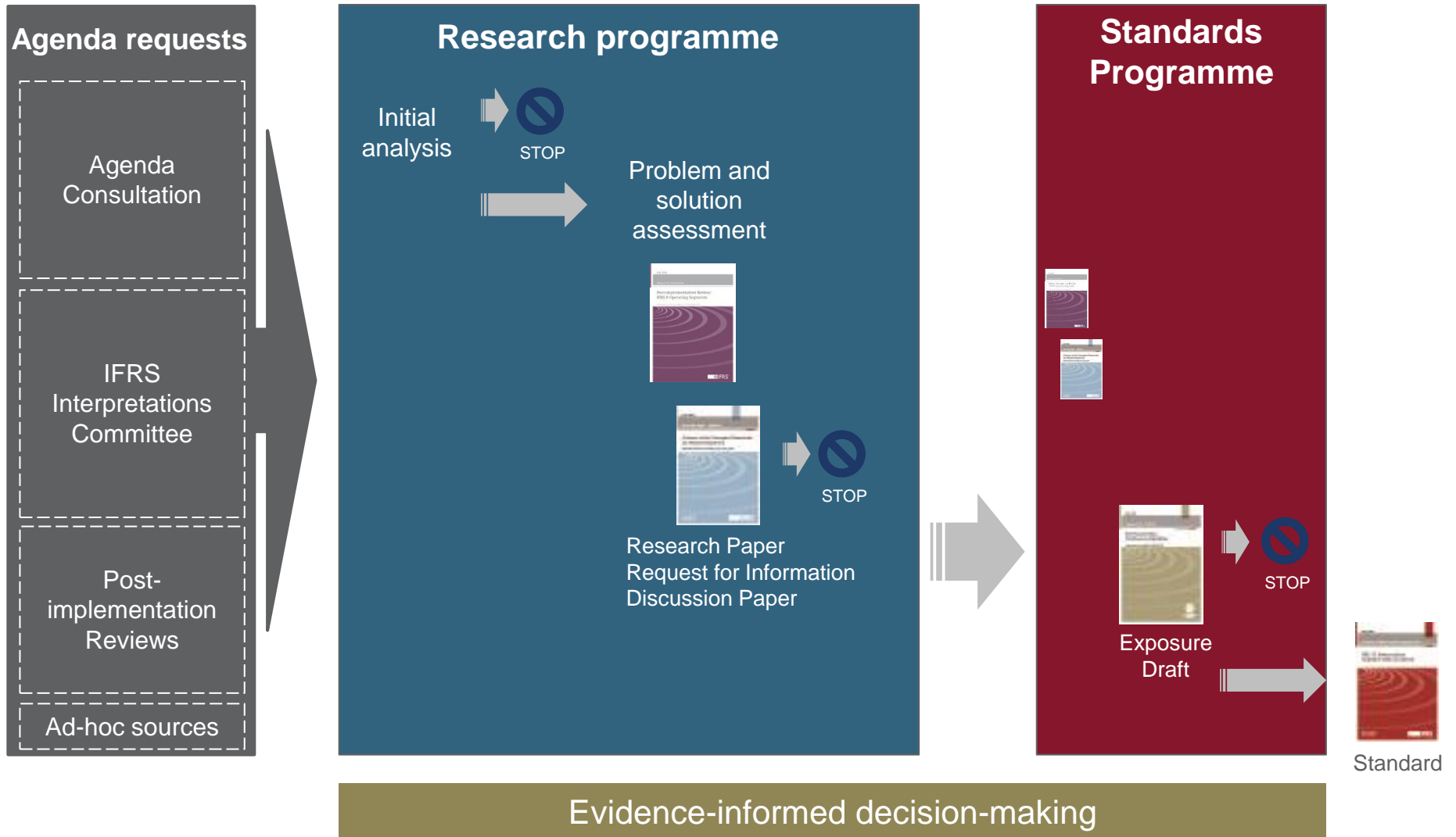
The research programme was created to help address these problems

# Research programme

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- 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
- 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 Standards-level programme on a timely basis

# The standard-setting process today





# Adding work to the Research Programme

- Sources of requests, or need, for the IASB to assess a possible problem:
  - Issues considered by the IFRS Interpretations Committee
    - The Equity Method
    - Share-based Payments
  - Post-implementation Reviews
    - Goodwill amortisation and impairment
  - Agenda Consultation
    - Discount rates
  - Ad hoc
    - National Standard-setters
      - Bearer plants
      - High inflation
      - Foreign currency
    - Disclosure Initiative

# Outputs from the research programme

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- Assessment leads to:
  - recommendation not to proceed further; or
  - do more research with targeted or more general consultation; or
  - add to the Standards-level programme.

## Communication of project progress and findings

- Papers posted for IASB discussion and summaries of IASB discussion available on the website;
- Project output documents:
  - General consultation documents (eg Request for Information, Discussion or Research Paper)
  - Project conclusions (eg feedback statement or project summaries on the website)

# Prioritising research projects

## Setting priorities

- It is important that we prioritise our research projects so that we make effective use of scarce resources.
- Not all projects have the same starting point or likely first step, eg:
  - The Discount Rates project is reviewing perceived inconsistent use of discount rates.
  - Business Combinations Under Common Control is assessing accounting alternatives for transactions scoped out of IFRS 3 Business Combinations.
- Not all projects are expected to have the same end point, eg:
  - Rate-regulated Activities will inevitably lead to some standards-level activity, the question is what form it takes.
  - Foreign currency and high inflation are unlikely to result in standard-setting activity.
  - Income Taxes is exploring, at a high level, whether the IASB should embark on a fundamental review, consider some narrower scope improvements, or do nothing.

## Advisory Council advice—priorities

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- In June 2014, the Council provided input on the approach to consideration of research activities within the IASB
- Council suggested the IASB 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.

## Resources and constraints

- Our stakeholders, Board and Staff all have limited time and resources available to give to projects.
- Within the IASB, the major projects, Conceptual Framework and implementation have time priority.
- In 2014, the Research Programme utilised:
  - 16 per cent of Board time;
  - 13 per cent of staff.
- The general approach is to:
  - allocate sufficient resources to each project to make progress; but
  - give priority to the most cost-effective projects, ie the projects that are most likely to be able to:
    - make a difference; and/or
    - be taken to the next milestone with the fewest demands.

## Priority examples

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- The reasons for giving priority to particular projects vary:
  - High Inflation was assessed as being a project that could quickly identify whether the problems raised by stakeholders was likely to lead to a major project or a decision not to undertake any more work.
  - The problems associated with business combinations under common control and the equity method are well known. We have been assessing whether the problems can be resolved in a cost-effective way.
  - The Disclosure Initiative is addressing pervasive problems.

## National Standard-setters

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- The Council also suggested, in June 2014, that the IASB ensure it is leveraging external resources (eg National Standard-setters and academics) when considering research activities.)
  - The research programme provides us with opportunities to work with National Standard-setters.
  - Provides additional resources, experience and perspectives.



## IASB-initiated work

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- NZ Accounting Standards Board
  - Disclosure initiative
  - Drafting of disclosure requirements
- UK FRC
  - Disclosure initiative / Performance Reporting
  - Statement of Cash Flows
- Italian OIC
  - Disclosure initiative
  - Accounting policies and estimates

## Other collaboration

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- Equity method
  - KASB, EFRAG
- Foreign Currency
  - KASB
- High inflation
  - GLASS, EEG
- Goodwill
  - ASBJ, OIC, EFRAG
  - FASB

# Research projects

## Nature of the projects

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- The Research programme is a portfolio of projects, which are at different stages and require different levels of resource.
- Projects are grouped into the following categories:
  - Development phase
  - Assessment phase
  - Exploratory phase
  - PIR follow-up work
  - Completed work

## Development phase

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- The IASB has completed its initial assessment and is developing a Discussion Paper or other Consultative Document.
- The initial assessment suggests that there is a problem that could benefit from a change to IFRS but the nature of the change, or whether improvements to IFRS can be developed, is not yet clear.
- Projects in this category:
  - Accounting for dynamic risk management
  - Disclosure Initiative
  - Financial instruments with characteristics of equity

## Assessment phase

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- These projects are assessing possible practice issues, to understand if there is a financial reporting problem and, if so, how to address it.
- No decision has yet been made as to whether we need to propose a change to IFRS.
- Projects in this category:
  - Business combinations under common control
  - Discount rates
  - Equity method of accounting
  - Performance reporting
  - Pollutant pricing mechanisms
  - Post-employment benefits (including pensions)
  - Provisions, Contingent Liabilities and Contingent Assets
  - Share-based payments

## Preliminary phase

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- These projects are long-term projects exploring broad issues.
- Some could be very large projects for which we are collecting and assessing information.
- In other cases we might be exploring more radical approaches to an issue—blue sky thinking.
- Projects in this category:
  - Extractive activities / Intangible assets / R&D activities
  - Income taxes

## PIR follow-up work

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- These projects have been identified as a consequence of the post-implementation review of IFRS 3 *Business Combinations*.
- We are currently assessing the next steps.
- The IFRS<sup>TM</sup> and FASB Accounting Standards Codification<sup>®</sup> requirements are aligned.
- The two issues are:
  - The definition of a business
  - Accounting for goodwill, including the impairment test.



## Completed work

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- The IASB has completed its initial assessments on these projects and has no current plans to undertake additional work.
- It plans to remove these projects from the Research programme, subject to feedback in the next Agenda Consultation.
- Two projects are in this category:
  - Foreign currency translation
  - High inflation

## Questions for the Advisory Council

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- Is the objective of the research programme clear, and is the IASB explaining the nature and status of its research in a helpful way?
- Do you have any feedback on the developing balance of the portfolio of projects?

**Completed  
research**

# Research moving from the Research programme

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- Moved to the Standards-level programme
  - Rate regulation
- Pending removal from the work agenda (completed research)
  - Foreign currency
  - High inflation

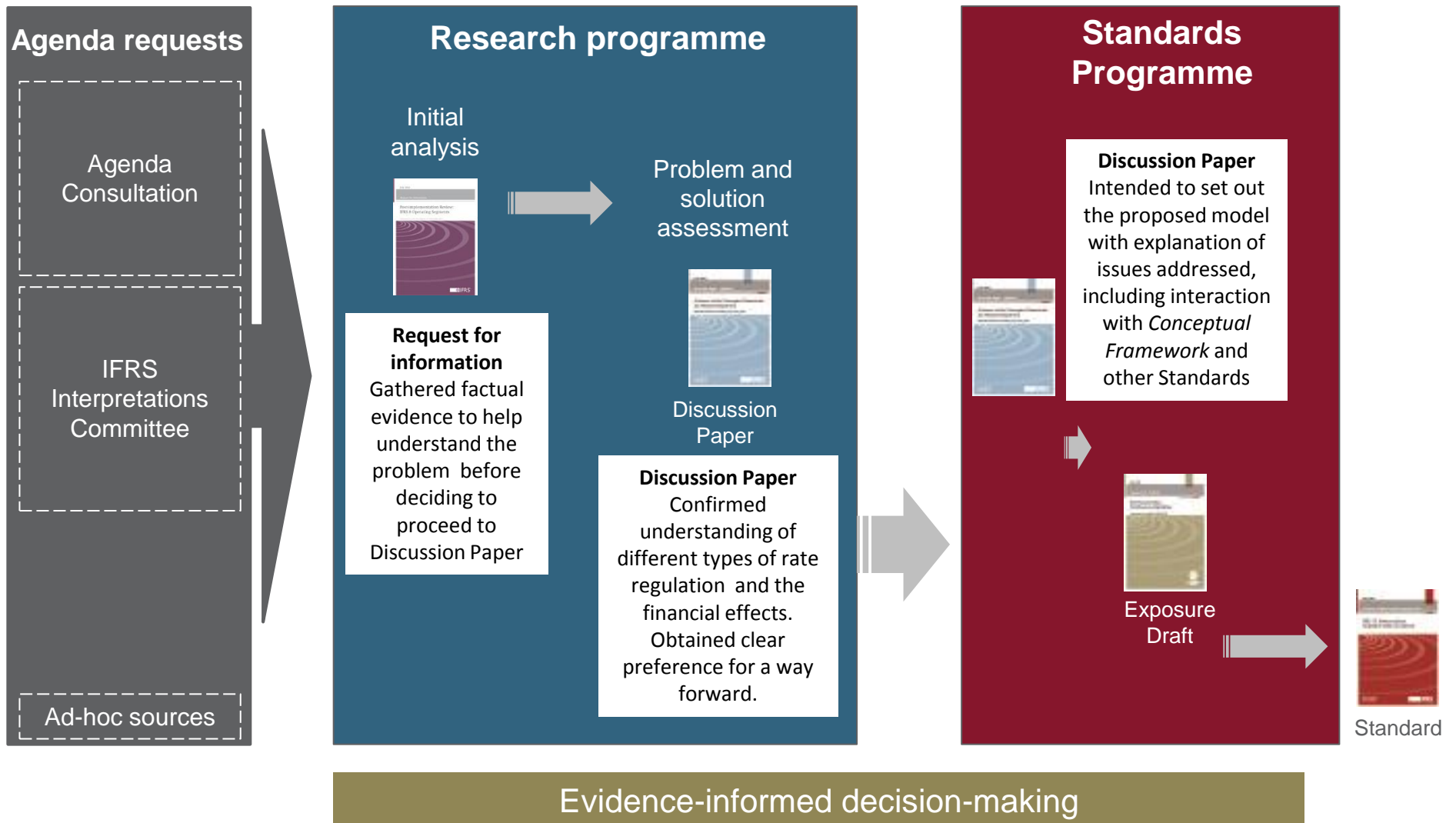
# Rate Regulation—research project

- Factors considered
  - Repeated requests to address a perceived gap in IFRS requirements
  - Considered a barrier to adoption of IFRS in some jurisdictions
  - Impact on affected entities is high
  - Relatively small population but large value
- IFRS 14 *Regulatory Deferral Accounts*, issued January 2014 as a temporary solution to assist first-time adopters only
- Discussion Paper Reporting the Financial Effects of Rate Regulation, published September 2014
  - Described rate regulation
  - Identified rights, obligations and financial effects
  - Outlined possible accounting approaches
    - advantages, disadvantages, hurdles to application

## Rate Regulation—current status

- Discussion Paper provided valuable feedback to help determine next steps
  - Confirmed that there is an accounting problem to try to resolve
  - Demand from users of financial statements, as well as preparers
  - Helping to clarify the rights, obligations and financial effects that are contributing to the problem
  - Provided clear direction on the possible accounting approach that is most likely to address the issues involved and to result in more relevant and faithfully representative information for users of financial statements
- IASB has tentatively decided to publish a second Discussion Paper following targeted consultation and field testing to develop an accounting model.

# Rate Regulation work-flow



## Question for the Advisory Council

- The Rate Regulation project has been classified by the IASB as a major project—ie it is not a research project—on the basis that the IASB is committed to undertake *some* form of standard-setting, eg:
  - Withdraw IFRS 14
  - Modify IFRS 14 (eg scope and/or requirements)
  - Replace IFRS 14
- The next step will be a (second) Discussion Paper, proposing a financial reporting solution. A discussion paper is a tool available to the IASB to help it get to the best solution as quickly as possible, whether in the research or Standard-setting phase.
- **Do Advisory Council members have any comments on the IASB moving the Rate Regulation project from the Research Programme to the Major Projects programme?**



# Foreign Currency

- The Korea Accounting Standards Board (KASB) provided the IASB with analysis and data on currency movements.
- The KASB asked the IASB to review IAS 21 The Effects of Changes in Foreign Exchange Rates and assess whether the IASB should undertake:
  - some narrower-scope improvements to IAS 21—including the accounting for long-term payables and receivables when a currency is thinly traded and volatile; or
  - a broader project to replace IAS 21.
- The IASB considered these issues in a public meeting in October 2014 and decided not to develop a project for the narrow-scope issues and to lower the priority on the broader project, pending the outcome of the 2015 Agenda Consultation.

# High Inflation

- The Group of Latin American Standard Setters (GLASS) presented a paper to the Accounting Standards Advisory Forum (ASAF) in December 2014, considering some of the problems with the existing requirements of IAS 29 Financial reporting in Hyperinflationary Economies and how the Standard could be improved.
- GLASS asked the IASB to:
  - eliminate or reduce the cumulative inflation rate threshold currently included in IAS 29 to identify when hyperinflation exists; and
  - modify the procedures for reporting the adjustments resulting from restating the financial statements.
- The IASB has decided not to pursue the suggestions made by GLASS. Instead, the IASB is asking the Emerging Economies Group to assess whether the IASB should consider developing disclosure requirements that focus on entities that report in jurisdictions suffering from high inflation.

## Questions for the Advisory Council

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- Do Advisory Council members have any comments on the IASB suspending work on the foreign currency and high inflation projects, pending the outcome of the 2015 Agenda Consultation?

# Thank you

