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PRESENTER	Peter Clark	

Research Programme, including due Process on the Share-Based Payment Project

Purpose

1. This paper provides the Due Process Oversight Committee (DPOC) with:
   (a) background information on the Board's research programme;
   (b) a summary of the Board's research project on share-based payments; and
   (c) an extract from the *Due Process Handbook*, summarising how the Board adds projects to its work plan.

Research programme

2. The Board established its research programme in 2012. The purpose of a project in the research programme (a research project) is to analyse possible financial reporting problems. This is intended to enable the Board to decide whether to add a project to its standard-setting programme, by providing evidence showing:
   (a) whether an accounting problem exists, and is clearly defined;
   (b) whether the problem is sufficiently important that standard-setting is required; and
   (c) whether a feasible solution can be found.
3. The research programme is discussed in paragraphs 4.6-4.19 of the Due Process Handbook.
4. Although the research programme was set up in 2012, most research projects did not start until 2014 or 2015. The project on share-based payment is the first research project to complete its life cycle.

5. Because this is a new process for stakeholders, it is worth emphasising the following points:

   (a) The objective of a research project is to gather evidence to establish whether standard-setting is required and to assist in defining the problem to be solved. In contrast, the objective of a standard-setting project is to develop or amend a Standard.

   (b) Research is an essential part of the standard-setting process. Even if a topic is of high priority, the Board will begin by gathering evidence in a research project. Thus, the fact that a project is a research project does not mean that project has a low priority.

   (c) When the Board reviews the evidence obtained from a research project, it decides whether to:

      (i) start a standard-setting project, intended to lead to proposals for a new Standard or to a major amendment to an existing Standard;

      (ii) start a maintenance project to develop a narrow-scope amendment to an existing Standard;

      (iii) perform further research on the same topic, or on a related topic; or

      (iv) take no further action.

   (d) Before adding to its work plan a standard-setting project to develop either proposals for a new Standard, or a major amendment to a Standard, the Board:

      (i) decides whether to seek public feedback on the evidence gathered in a research project. To seek such feedback it would normally issue a Discussion Paper. To avoid placing unnecessary burdens on stakeholders, the Board seeks such feedback only if it is needed.

      (ii) consults the Advisory Council, the Accounting Standards Advisory Forum (ASAF) and accounting standard-setting bodies (see paragraph 5.6 of the *Due Process Handbook*).

   (e) When the Board concludes that sufficient research has been completed to enable it to decide whether standard-setting is appropriate, the research project is finished.

      (i) If standard-setting is appropriate, the Board will then start a standard-setting project or a maintenance project. Paragraphs 5.1-5.22 of the *Due Process Handbook* specify the process for adding a standard-setting or maintenance project to the work plan. Those paragraphs are reproduced in the appendix to this paper

      (ii) If standard-setting is not appropriate, the research performed needs to be summarised concisely and retained in a way that makes it visible and readily retrievable by stakeholders.

   (f) A post-implementation review may, itself, sometimes provide sufficient evidence for the Board to start a standard-setting project (for a major amendment) or a maintenance project (for a narrow-scope amendment). Alternatively, a post-implementation review may provide evidence that an issue needs to be considered but may not identify how best to address it. In the latter situation, the Board considers starting a research project to gather the evidence it would need to decide whether standard-setting activity is required.

How did the 2015 Agenda Consultation affect the research programme?

6. As a result of the 2015 Agenda Consultation, the Board decided:

   (a) to transfer four existing research projects to a newly created research pipeline, together with four new projects. The four existing projects are on the Equity Method (of accounting for associates), on Extractive Activities (such as oil, gas and mining), on Pollutant Pricing Mechanisms and on Provisions. In addition, the Board narrowed the scope of the project on Extractive Activities. Previously, this was also intended to review intangible assets. Projects in the pipeline will not become active immediately, but the Board expects to carry out work on them before the next agenda consultation, which is due in 2021.

   (b) that for four other existing research projects:

      (i) no further work should be performed over the next five years (ie before the next agenda consultation is due);

      (ii) there is no need to seek feedback from stakeholders on the decision to perform no more work or on the evidence gathered;[1] and

      (iii) there is no need to publish a formal Research Paper or Discussion Paper summarising the research performed in those projects. Those projects were on Foreign Currency Translation, High Inflation, Income Taxes and Post-Employment Benefits.[2]

7. Many respondents to the 2015 Agenda Consultation stated that it is important that information about projects removed from the research programme remains available. The Board agrees that this is important. Evidence obtained in research projects will be summarised concisely and will be placed on the Board's website in a format that makes it visible, and readily retrievable by stakeholders.

Adding projects to the research programme or research pipeline

8. On the basis of information available now, the Board does not expect to carry out significant research work by 2021 on topics not already on its active research programme and not included within its research pipeline. Nevertheless, the research pipeline is not fixed for the next five years. If circumstances change–for example if significant new issues emerge–the Board may need to add other research projects to its active research programme or research pipeline, or to make other changes to its research priorities.

9. The Board is not required to consult the Advisory Council before it decides whether to add a research project to its research programme or to te research pipeline. The Board provides the Advisory Council with an update of its research programme at each meeting of the Advisory Council, enabling Advisory Council members to provide feedback on the programme (paragraph 4.11 of the *Due Process Handbook*).

10. The initial research programme set in 2012 contained 12 projects. Four projects were added between 2012 and 2016 (Disclosure Initiative—Principles of Disclosure, Dynamic Risk Management, Goodwill

[1] In the 2015 Agenda Consultation, the Board announced its intention to do no further work on Foreign Currency Translation and on High Inflation, and received, and considered, feedback on that intention.

[2] Two of the new projects in the research pipeline are on High Inflation: Scope of IAS 29 and on Pension Benefits that Depend on Asset Returns. They have much narrower scopes than the previous research projects on High Inflation and on Post Employment Benefits.

and Impairment and Primary Financial Statements). As noted above, after the 2015 Agenda Consultation, four projects were moved to the newly created research pipeline and the Board decided that no further work was required on four others. Thus, there are now eight projects in the research programme.

11. Two other projects have been classified briefly in the research programme, but are now in the standard-setting or maintenance programmes:

    (a) After the 2011 Agenda Consultation, a project on Rate Regulated Activities was included in the standard-setting programme. This was subsequently split into two components. The first led to an interim Standard, IFRS 14 *Regulatory Deferral Accounts*.   The second, longer-term component was at one stage classified as a research project, but is no classified as a standard-setting project, to signal more clearly that some form of standard-setting is inevitable, given the interim nature of IFRS 14.

    (b) After the Post-implementation Review of IFRS 3 *Business Combinations*, the Broad added two projects, on Definition of a Business, and on Goodwill and Impairment. Initially,. These were both classified as research projects, but it soon became apparent that the work on Definition of a Business was in fact a maintenance project, given the scope of the project and the evidence already provided by the Post-implentation Review.

Share-based payment

12. The Board included a project on share-based payment in the research programme it established in 2012 after the 2011 Agenda Consultation.   Work on the project began in early 2015.

13. The objective of this project was to identify the most common areas of complexity in accounting for share-based payment transactions, and their main causes, and to assess whether the Board should consider addressing them.

14. The research involved the following steps:

    (a) review of responses to the 2011 Agenda consultation;

    (b) review of IFRS 2-related requests to the IFRS Interpretations Committee;

    (c) discussions with the Global Preparers Forum (GPF) in March 2015 and March 2016;

    (d) discussions with technical specialists from audit firms and with IASB members;

    (e) review of material published by audit firms;

    (f) user outreach: discussions with three members of the Capital Markets Advisory Committee (CMAC): one debt analyst and two equity analysts;

    (g) review of results from the Post-implementation Review by the Financial Accounting Foundation (FAF) of US GAAP requirements in this area, and a review of narrow-scope amendments made to those requirements in March 2016 by the US Financial Accounting Standards Board (FASB);

    (h) review of a paper presented by the French standard-setter, Autorité des Normes Comptables (ANC) to the IFRS Advisory Council in November 2010;

(i) reviews of publicly available data on the extent of IFRS 2 disclosures in practice, including reviews of surveys performed by the publication *Company Reporting* and by Deloitte UK;

(j) discussion with the Accounting Standards Advisory Forum (ASAF) in April 2016; and

(k) review of feedback received in the 2015 Agenda Consultation.

15. The staff presented their initial findings to the Board in November 2015, with an update in May 2016. Both the initial findings and the subsequent update are publicly available on the Board's website.

16. In May 2016, the Board decided:

(a) not to perform any further research on this topic. In addition, the Board identified no need to develop amendments to IFRS 2;

(b) that there is no need to seek feedback from stakeholders on that decision or on the staff's findings; and

(c) that there is no need to publish a formal research paper or discussion paper summarising the research performed in this project.

17. To make the work performed in this project more visible and more easily retrievable, the staff are developing a concise Research Summary, along the lines of the Project Summaries issued after some standard-setting projects. This will contain a link to the underlining staff papers produced for the Board meetings in November 2015 and May 2016.

Appendix
Extract from the IFRS Foundation Due Process Handbook (June 2016)

5. Standards-level projects

5.1 In considering whether to add a project to the standards-level programme, the IASB or the Interpretations Committee requires the development of a specific project proposal and an assessment against the project criteria outlined below. That consideration will include whether the proposal is for a comprehensive project to develop a new Standard or major amendments to existing Standards (see paragraphs 5.4–5.13), or a narrow-scope project for the purposes of implementation and maintenance (see paragraphs 5.14–5.22).

5.2 The primary objective of a project proposal is to help the IASB to manage its resources effectively and to help it to prioritise its standards-level work. The IASB distinguishes between major and narrow-scope projects in its planning to help reduce the risk of committing resources to a project when other projects should have a higher priority. For major projects the IASB is required to consult with other bodies, including the Advisory Council and ASAF, to provide the IASB with additional input into establishing priorities.

5.3 All proposed new Standards, amendments to Standards, or Interpretations are exposed for public comment. Accordingly, if potential respondents believe that the IASB has failed to establish the need for improvements to an area of financial reporting they will have opportunities to express their views during the consultation process.

Criteria for new Standards or major amendments

5.4 The IASB evaluates the merits of adding a potential item to its 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. When deciding whether a proposed agenda item will address users' needs, the IASB considers:

(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.

5.5 The IASB considers adding topics to its standards-level programme after considering any research it has undertaken on the topic. The IASB would normally put together a proposal to develop a new Standard or to make major amendments to a Standard only after it has published a Discussion Paper and considered the comments it received from that consultation. Publishing a Discussion Paper before adding a standards-level project to its agenda is not a requirement, but the IASB must be satisfied that it has sufficient information and understands the problem and the potential solutions well enough to proceed without a Discussion Paper. The IASB might conclude that a Discussion Paper is not necessary because it has sufficient input from a research paper, Request for Information or other research to proceed directly to an Exposure Draft. The reasons for not publishing a Discussion Paper need to be set out by the IASB and reported to the DPOC.

5.6 The IASB's discussion of potential projects and its decisions to adopt new projects take place in public IASB meetings. Before reaching such decisions, the IASB consults its Advisory Council, ASAF and accounting standard-setting bodies on proposed agenda items. The IASB's approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting.

5.7 The IASB should only add a project if it considers that the benefits of the improvements to financial reporting will outweigh the costs.

5.8 Minor or narrow-scope amendments to Standards, including Annual Improvements, do not need to follow this formal consultation process before being added to the standards-levels programme because such amendments are part of the implementation or maintenance of Standards. However, the Advisory Council should be informed of any proposed additions of minor or narrow-scope amendments to the standards-level programme.

Issues referred by the Monitoring Board

5.9 The Monitoring Board may refer technical financial reporting matters to the Trustees and the IASB Chair. The Monitoring Board's consensus-based decision-making process limits the invocation of such an action to extremely rare and urgent cases where all Monitoring Board members agree that a technical financial reporting matter warrants referral.

5.10 The Trustees and the IASB Chair are required to ensure that any such referral is addressed in a timely manner. Such referrals do not need to follow the formal consultation process set out in paragraphs 5.1–5.6.

5.11 The IASB, together with the Trustees, must report to the Monitoring Board, usually within 30 days but sooner if the matter is more urgent, those steps it is taking to consider the referral.

5.12 If the IASB decides not to take up the referred issue, the IASB must explain its position to the Trustees and the Monitoring Board why addressing the matter by amending a Standard would be inconsistent with the standard-setting responsibilities established in the Constitution.

5.13 In all cases, it is understood that the Monitoring Board will neither influence the decision-making process nor challenge the decisions made by the IASB with regard to its standard-setting.

Implementation and maintenance

Identification of matters

5.14 The IASB and the Interpretations Committee are responsible for the maintenance of IFRSs. Issues could include the identification of divergent practices that have emerged for accounting for particular transactions, cases of doubt about the appropriate accounting treatment for a particular circumstance or concerns expressed by investors about poorly specified disclosure requirements.

5.15 The objectives of the Interpretations Committee are to interpret the application of IFRSs, provide timely guidance on financial reporting issues that are not specifically addressed in the IFRSs and undertake other tasks at the request of the IASB. The IASB and the Interpretations Committee share a common view on the role that the Interpretations Committee should play: both bodies see the Interpretations Committee as working in partnership with the IASB to give guidance that responds to the implementation needs of those applying IFRSs. Both bodies also see the importance of achieving a balance between the principle-based approach of IFRS and providing guidance with sufficient detail to ensure that it is useful and practical.

5.16 All parties with an interest in financial reporting are encouraged to refer issues such as those listed in paragraph 5.14 to the Interpretations Committee when they believe that it is important that the matter is addressed by the IASB or the Interpretations Committee. The Interpretations Committee normally consults on issues that are referred to it with national accounting standard-setting bodies and regional bodies involved with accounting standard-setting. The Interpretations Committee should address issues:

(a) that have widespread effect and have, or are expected to have, a material effect on those affected;

(b) where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and

(c) that can be resolved efficiently within the confines of existing IFRSs and the Conceptual Framework for Financial *Reporting*.

5.17 The issue should be sufficiently narrow in scope that it can be addressed in an efficient manner by the Interpretations Committee, but not so narrow that it is not cost-effective for the Interpretations Committee and interested parties to undertake the due process that would be required when making changes to IFRSs.

5.18 A simple majority of Interpretations Committee members present can decide, after a debate in a public meeting, whether to add any issue to its work programme.

5.19 If the Interpretations Committee believes that a Standard or the Conceptual Framework should be modified, or an additional Standard should be developed, it refers such conclusions to the IASB. The IASB can also decide to address minor matters that have a narrow scope without involving the Interpretations Committee. In the case of minor or narrow-scope amendments to Standards, the IASB considers developing an Exposure Draft, in line with the process detailed in paragraphs 6.4–6.9. In other cases, the IASB may seek the assistance of the Interpretations Committee in developing an amendment to a Standard, drawing on their implementation experience. This is the case, for example, in the Annual Improvements process, where the IASB seeks the assistance of the Interpretations Committee when following the process for exposing Annual Improvements, as outlined in paragraphs 6.10–6.15. If the Interpretations Committee believes that an Interpretation is required, it follows the process outlined in Section 7. Interpretations are designed for general application and are not issued to resolve matters that are specific to a particular entity.

5.20 The Interpretations Committee applies a principle-based approach founded on the *Conceptual Framework*. It considers the principles established in the relevant IFRSs to develop its interpretative guidance and to determine that the proposed guidance does not conflict with IFRSs. It follows that, in providing interpretative guidance, the Interpretations Committee is not seeking to create an extensive rule-oriented environment, nor does it act as an urgent issues group.

5.21 The solution developed by the Interpretations Committee should be effective for a reasonable period of time. Accordingly, the Interpretations Committee would not normally develop an Interpretation if the topic is being addressed in a forthcoming Standard. However, this does not prevent the Interpretations Committee from acting on a particular matter if the short-term improvements can be justified.

5.22 If the Interpretations Committee does not plan to add an item to its work programme it publishes this as a tentative rejection notice in the *IFRIC Update* and on the IFRS Foundation website and requests comments on the matter. The comment period for rejection notices is normally at least 60 days. After considering those comments the Interpretations Committee will either confirm its decision and issue a rejection notice, add the issue to its work programme or refer the matter to the IASB. Rejection notices do not have the authority of IFRSs and they will therefore not provide mandatory requirements but they should be seen as helpful, informative and persuasive. The IASB is not asked to ratify rejection notices.