

## STAFF PAPER

December 2018

## Board Meeting

<b>Project</b>	<b>Research Programme</b>
Paper topic	Research Update
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board). The views expressed in this paper do not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Purpose of the paper**

1. This paper gives a brief update on the research programme since the last update, provided in the Board's meeting in September 2018.
2. Appendix A summarises the Board's active research projects and the projects in its research pipeline. More information can be downloaded from the individual project pages, which can be accessed from the research projects tab on <http://www.ifrs.org/projects/work-plan/>.
3. The staff expect to provide the next Research Update in around three or four months.

**Recent developments**

4. The main developments in the research programme since September 2018 are as follows:
  - (a) The staff have started work on a project from the research pipeline: Provisions (see agenda paper 22). Following this meeting, the staff will update the work plan on the website to list this project as an active research project.

- (b) As already envisaged in the last research update, in September 2018, the Board moved the research project on Primary Financial Statements to the standard-setting work plan.
- (c) In October 2018, the Board published a project summary *Share-based payment—research on sources of accounting complexity*.
- (d) At this meeting, the staff recommend in Agenda Paper 14 that the Board adds to its standard-setting work plan a project on IBOR reform.
- (e) The staff have reviewed the timetables for the active research projects and have made the following changes to the estimated dates for the next milestone:
  - (i) Business combinations under common control: discussion paper H1 2020 [estimate currently shown on work plan H2 2019, delayed in the light of the current status of deliberations and remaining topics to be discussed]
  - (ii) Dynamic risk management: core model H2 2019 [currently H1 2019, delayed because of work on IBOR reform]
  - (iii) Goodwill and impairment: discussion paper H2 2019 [no estimated date currently shown on work plan, but accelerated from the initial estimate of H1 2020 given in the Board meeting for October 2018]
- (f) The staff had originally expected that the following two pipeline projects might become active before the end of 2018:
  - (i) SMEs that are Subsidiaries. The staff now expect to make this project active in early 2019 at around the same time as the start of the review of the IFRS for SMEs® Standard.
  - (ii) Contingent and Variable Consideration. The staff allocated to this project have not become available as soon as we expected. We will reassess the timing and priority vis-à-vis active projects and other pipeline projects in early 2019.

## Question for the Board

### Questions for the Board

1. Do Board members have any questions or comments on the projects or about the research programme generally?

## Appendix A: Summary of the Research programme at 29 November 2018

### Active research projects

- A1. Eight research projects are on the Board's active work plan.
- A2. In addition, the staff are finalising project summaries for two completed research projects and for the completed Post-Implementation Review of IFRS 13 *Fair Value Measurement*. Those documents will summarise information already in publicly available Board papers. They will not include new material.

<b>Active projects</b>	
<i>Project</i>	<i>Status</i>
Financial Instruments with Characteristics of Equity	Discussion Paper published June 2018, comment deadline 7 January 2019
Business Combinations Under Common Control	Board discussions continue
Dynamic Risk Management	Board discussions continue
Goodwill and Impairment	Board discussions continue
IBOR Reform and the Effects on Financial Reporting	Added to the active research programme in July 2018. See Agenda Paper 14 for this meeting.
Extractive Activities	Previously in research pipeline, became active September 2018
Pension Benefits that Depend on Plan Assets	Previously in research pipeline, became active September 2018
Provisions	Previously in research pipeline, became active December 2018 <sup>1</sup>
<b>Active projects—complete</b>	
Discount Rates	Complete, producing project summary
Disclosure Initiative—Principles of Disclosure	Complete, producing project summary
Post-implementation review of IFRS 13 <i>Fair Value Measurement</i>	Complete, producing report and feedback summary

<sup>1</sup> After this Board meeting, the staff will update the website to show that the project on Provisions is now active.

- A3. As a reminder, the expected output of a research project is not an Exposure Draft. The expected output is evidence to help the Board decide whether or not to add to its work plan a standard-setting project or maintenance project.

### ***Research pipeline***

- A4. In completing the recent Agenda Consultation, the Board set up a pipeline of research projects. These are not yet on the active work plan.
- A5. The Board created its research pipeline in late 2016, following the Agenda Consultation. At the time, the Board included eight projects in the research pipeline. The Board consciously limited the size of the research pipeline so that it contains only those research projects on which it thought it could realistically expect to do a significant amount of the research before the next agenda consultation (expected to be completed in 2021).
- A6. The research pipeline is not fixed through to 2021. The Board is free to add projects to the research pipeline if and when it sees fit.
- A7. Three of the pipeline projects became active in September or December 2018: Extractive Activities, Pension Benefits that Depend on Asset Returns and Provisions.
- A8. No work has yet started on the other projects in the research pipeline. In February 2018, the Board identified two other projects in the research pipeline that it would aim to make active within the next few months: SMEs that are Subsidiaries and Contingent and Variable Consideration. The Board indicated at that time that it expected to start the remaining three pipeline projects in 2019 or early 2020.
- A9. The staff continue to monitor progress on the standard-setting work plan, the research programme and maintenance projects in assessing when to move pipeline projects to the active research programme and in what sequence.
- A10. The projects in the research pipeline are listed below, and appendix B provides more information about them.

<b>Pipeline projects</b>
Equity Method
High Inflation: Scope of IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
Pollutant Pricing Mechanisms
SMEs that are Subsidiaries
Variable and Contingent Consideration

### **Post-implementation reviews**

- A11. In March 2018, the Board completed its discussion of the Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement*. The staff are developing a Feedback Statement for the PIR of IFRS 13.
- A12. We are required to carry out a PIR of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.
- A13. The Board decided after the most recent Agenda Consultation to carry out a PIR of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Board is not required to carry out a PIR of IFRS 5, but decided that a PIR would be the most effective and efficient way to review issues identified by the IFRS Interpretations Committee.
- A14. The Board decided in February 2018 that it would aim to start the PIRs of IFRS 10-12 and IFRS 5 in 2019 or early 2020.

### **Starting pipeline projects and Post-implementation Reviews**

- A15. The Board said in the Feedback Statement *IASB Work Plan 2017-2021* that when it assesses whether and when to add a research project from the pipeline to its research programme of active research projects, it will need to consider various factors, including:
- (a) the urgency of the problem;
  - (b) the extent and complexity of the research needed;
  - (c) the likely time commitment for stakeholders;

- (d) the overall balance of the active work plan;
- (e) interactions with other current or future projects;
- (f) the availability of appropriate staff and sufficient Board time to carry out the research project over an appropriate timescale, without diverting resources from other projects; and
- (g) the most efficient time to carry out the work.

- A16. Because it is not feasible to forecast those factors in detail, the Board has not set an order of priority for individual projects within its research pipeline.
- A17. In the Research Update for February 2018, we assessed each of those pipeline projects and Post-Implementation Reviews against the factors listed above. We have not repeated that assessment in this paper.
- A18. In appendix B, we give information on each of the pipeline projects, as well as on the two Post-implementation Reviews on which the Board expected in 2016 that it would make substantial progress by the end of 2021.

## Appendix B: Summary of pipeline projects and of future Post-implementation Reviews

Project	Equity Method
Objective	To assess whether practice problems that arise using the equity method (for investments in associates and joint ventures) could be addressed by amending the equity method or whether a more fundamental review is needed.
Comments	<p>The Board last discussed previous work on this topic in May 2016, during the Agenda Consultation.</p> <p>In December 2015, the Board deferred indefinitely the mandatory effective date of <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>, an amendment made in September 2014 to IAS 28 (and to IFRS 10). The purpose of the deferral was to enable the Board to consider further issues in its research on the equity method.</p> <p>The Board decided in May 2016 that the next step is to seek feedback in the Post-implementation Review of IFRS 11 <i>Joint Arrangements</i> on investors' information needs regarding investments for which the equity method is used,.</p> <p>Work on subtotals in Primary Financial Statements may identify subpopulations of those investments for which the equity method is used, for example by distinguishing integral from non-integral associates and joint ventures.</p>



<b>Project</b>	<b>High Inflation: Scope of IAS 29</b>
Objective	<p>To assess whether it would be feasible to extend the scope of IAS 29 <i>Financial Reporting in Hyperinflationary Economics</i> to cover economies subject to only high inflation, without amending other requirements of IAS 29.</p> <p>If the research establishes that this scope extension would not be feasible, the staff expects to recommend no work on IAS 29.</p>
Comments	<p>The main research would be to assess:</p> <ul style="list-style-type: none"> <li>• whether users who have no experience of using financial statements prepared under IAS 29 would welcome a requirement to apply IAS 29 when the reporting currency is subject to high inflation;</li> <li>• whether extending the scope of IAS 29 would often lead to some countries dipping in and out of the scope of the Standard; and</li> <li>• whether extending the scope of IAS 29 would place extra strain on the approach used by IAS 29.</li> </ul>

<b>Project</b>	<b>Pollutant pricing mechanisms</b>
Objective	To assess whether the Board should develop a proposal to address any diversity that may exist in accounting for pollutant pricing mechanisms (including emissions trading schemes).
Comments	The Board last discussed previous work on this topic in October 2015 (with a limited update in the Agenda Consultation in April 2016).

<b>Project</b>	<b>SMEs that are Subsidiaries</b>
Objective	<p>To assess whether it would be feasible to permit SMEs that are subsidiaries to use the recognition and measurement requirements in IFRS Standards with the disclosure requirements in the IFRS for SMEs® Standard.</p> <p>If the research establishes that this approach would not be feasible, the staff expects to recommend no work in this area.</p>
Comments	<p>Some national standard setters have carried out projects to rethink disclosure requirements for SMEs, but rethought the disclosures from scratch, which the Board does not intend to do.</p> <p>The research would involve:</p> <ul style="list-style-type: none"> <li>• Investigating how much tailoring the existing disclosure requirements of the IFRS for SMEs Standard would need to make them dovetail with the recognition and measurements of IFRS Standards, without establishing a new third regime (alongside IFRS Standards and the IFRS for SMEs Standard).</li> <li>• Outreach to establish whether preparers would have sufficient appetite for the package to make it worthwhile to pursue it.</li> <li>• Assessing whether any tailoring of the disclosure requirements is significant enough to require user feedback before the Board decides whether to add a standard-setting project to its work plan.</li> </ul> <p>There may be some future interaction with the next review of the IFRS for SMEs Standard (due in 2019).</p>

<b>Project</b>	<b>Variable and Contingent Consideration</b>
Objective	<p>To assess whether the Board should develop a proposal on how to account for variable and contingent payments for asset purchases outside a business combination.</p> <p>Once the Board has considered this topic, there may be a need for some follow up research on risk-sharing and collaborative arrangements.</p>
Comments	<p>This project came out of referrals from the IFRS Interpretations Committee.</p> <p>The first step would be to do some initial scoping work to assess how broad this project is. Issues to be considered are likely to include:</p> <ul style="list-style-type: none"> <li>• When should a liability be recognised for a future variable or contingent payment, at what amount, and should part or the whole of that amount be reflected in the measurement of the asset acquired?</li> <li>• Should subsequent remeasurements of the liability lead to revisions to the measurement of the asset purchased (and if so in what circumstances), or are the remeasurements part of the entity's performance?</li> </ul>

<b>Project</b>	<b>Post-implementation Review of IFRS 10 <i>Consolidated Financial Statements</i>, IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i></b>
Objective	To evaluate whether these Standards are working as the Board intended.
Comments	<p>The Due Process Handbook states a 'PIR normally begins after the new requirements have been applied internationally for two years, which is generally about 30 to 36 months after the effective date.'</p> <p>IFRS 10, IFRS 11 and IFRS 12 became mandatory for annual periods that began on or after 1 January 2013. Amendments relating to investment entities became mandatory one year later.</p>

Thus, for entities that have a calendar year end and are not investment entities, financial statements for 5 years should be available once they have prepared their 2017 financial statements.

On the other hand, for entities that do not have a calendar year end and are investment entities, financial statements for only 3 years will be available until they issue their 2018 financial statements.

It seems that sufficient experience should now exist to provide sufficient input for a PIR of these Standards during 2019, except perhaps for investment entities.

Some stakeholders have cautioned the Board that the value of the PIR is limited if it is conducted too early for the Board to gather enough evidence of how a Standard is being applied in practice. If it is too soon to obtain sufficient high-quality input yet for investment entities, we could:

- start the rest of the PIR in the meantime, and look at investment entities later;
- wait until enough input is available for investment entities as well; or
- start a PIR of IFRS 11 first, to provide input for the pipeline project on the equity method, and follow up later with the review of IFRS 10 and IFRS 12.

Conducting this PIR as two separate exercises might not delay this work significantly. This is because there may be only a partial overlap between stakeholders interested in different components of the PIR.

Thus, the outreach for different components of the PIR might need to be partly separated, even if the Board conducts the entire PIR as a single exercise.

<b>Project</b>	<b>Post-implementation Review of IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></b>
Objective	To evaluate whether IFRS 5 is working as the Board intended.
Urgency	IFRS 5 came into effect in 2005. Thus, the Board is not required to conduct a PIR, but decided after the most recent Agenda Consultation to do so, as the most effective and efficient way to review issues raised by the Interpretations Committee.