

STAFF PAPER

June 2018

Board Meeting

Project	Research Programme
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 February 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.
4. The staff comment below on three topics:
 - (a) Possible new research project - IBOR reform and the effects on financial reporting
 - (b) Post-implementation review of IFRS 10-12
 - (c) Commodity loans and related transactions

Possible new research project - IBOR reform and the effects on financial reporting

5. In Agenda Paper 19 *IBOR reform and the effects on financial reporting*, the staff present a proposal to start an active research project on how impending reforms to interest reference rates (such as LIBOR, EURIBOR and TIBOR) might affect

financial reporting. Given the limited scope of the activities of the proposed research project, the staff do not anticipate concerns over resourcing.

Post-implementation review of IFRS 10-12

6. In February 2018, the Board decided that it should aim to start the Post-Implementation reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* in 2019 or early 2020, rather than in 2018.
7. At the meeting of the Accounting Standards Advisory Forum (ASAF) in April 2018, the staff asked ASAF members for advice on:
 - (a) when an appropriate time would be to start those PIRs; and
 - (b) whether those PIRs should be undertaken in a single project, or as two or more separate projects (for example IFRS 11 separately from IFRS 10 and IFRS 12, or the requirements for investment entities separately from other aspects of those Standards).
8. In response:
 - (a) Some ASAF members supported starting the reviews as soon as possible and as one project. However, members highlighted outstanding issues associated with the Equity Method of Accounting. Thus, they suggested that if resources were short then the PIR of IFRS 11 (and the related disclosures in IFRS 12) should be prioritised.
 - (b) One member highlighted a significant number of issues with IFRS 10 and urged the Board to begin with a PIR of this project.
 - (c) One member suggested that the Board should begin each of these PIRs at the same time as separate projects.
9. The staff do not plan to start the PIR of IFRS 10-12 until after 2018.

Commodity loans and related transactions

10. The Research Update in February 2018 included a reminder that the Board discussed a possible research project on commodity loans and related transactions in January 2018 at an educational session, at which no decisions were taken. Although the Board has not added a formal project on this topic to its research

programme, the staff have been obtaining evidence about how prevalent these transactions are and analysing whether the Board should consider taking any action. The staff plan to bring a summary of the evidence and analysis to the Board meeting in July 2018.

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 6 June 2018

Active research projects

A1. Eight research projects are on the Board's active work plan.

Active projects	
<i>Project</i>	<i>Status</i>
Disclosure Initiative—Principles of Disclosure	Board discussions continue, in the light of feedback received on the Discussion Paper
Financial Instruments with Characteristics of Equity	Discussion Paper close to publication
Dynamic Risk Management	Board discussions continue
Goodwill and Impairment	Board discussions continue
Primary Financial Statements	Board discussions continue
Business Combinations Under Common Control	Board discussions continue
Discount Rates	Complete, producing research summary
Share-based Payment	Complete, producing research summary

A2. The Board has completed its discussion of its research projects on Discount Rates and on Share-Based Payment. The staff are developing brief Research Summary documents to help make the work performed on those two projects visible and more readily retrievable. Those documents will summarise information already in publicly available Board papers. They will not include new material.

Research pipeline

A3. In completing the recent Agenda Consultation, the Board set up a pipeline of research projects. These are not on the active work plan now, but before the next agenda consultation (due in 2021) we expect the Board to do a significant amount of the research in each of them, though not necessarily to complete each one.

- A4. 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.
- A5. There are eight projects in the research pipeline. The Board has not yet started working on any of the projects in the research pipeline. In February 2018, the Board identified five projects in the research pipeline that it will aim to start in the next few months. The Board expects start the remaining three pipeline projects in 2019 or early 2020. The projects are listed below, and appendix B provides more information about them.

Pipeline projects—aiming to start in next few months
Extractive Activities
Pension Benefits that Depend on Asset Returns
Provisions
SMEs that are Subsidiaries
Variable and Contingent Consideration
Pipeline projects—aiming to start 2019 or early 2020
Equity Method
High Inflation: Scope of IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
Pollutant Pricing Mechanisms

Post-implementation reviews

- A6. In March 2018, the Board completed its discussion of the Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement*. The Board decided to:
- (a) feed the PIR findings regarding the usefulness of disclosures into the work on Better Communications in Financial Reporting, in particular, the projects on Principles of Disclosure and Primary Financial Statements;
 - (b) continue liaising with the valuation profession, monitor new developments in practice and promote knowledge development and sharing; and
 - (c) conduct no other follow-up activities as a result of findings from the PIR.

- A7. 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*.
- A8. 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.
- A9. 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, rather than 2018.

Starting pipeline projects and Post-implementation Reviews

- A10. We said in the Feedback Statement *IASB Work Plan 2017-2021* that when the Board considers 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.
- A11. 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.
- A12. In the last Research Update (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.

A13. In appendix B, we give information on each of the pipeline projects, as well as on the two Post-implementation Reviews we expect the Board to have made substantial progress on by the end of 2021.

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

Project	Extractive activities
Objective	To assess whether the Board should develop a proposal to introduce accounting requirements for exploration, evaluation, development and production of minerals, and oil and gas.
Comments	<p>IFRS 6 <i>Exploration for and Extraction of Mineral Resources</i> is a temporary Standard and cannot remain in place permanently.</p> <p>There is growing public interest in disclosure about extractive activities.</p> <p>The Board published a Discussion Paper <i>Extractive Activities</i> in 2010. Neither the Board nor the staff have worked on this topic since reviewing the responses.</p> <p>The initial steps would be to:</p> <ul style="list-style-type: none"> • Review responses to the 2010 Discussion Paper <i>Extractive Activities</i> • Identify any significant developments since 2010. (The staff have recently asked those national standard setters whose staff contributed to the Discussion Paper to make the Board aware of any developments since then.) • Assess whether the scope of any standard setting should be simply to do the minimum needed to replace IFRS 6, or to consider a broader range of issues relating to extractive activities.

Project	Pension Benefits that Depend on Asset Returns
Objective	<p>To assess whether it would be feasible to place a cap on asset returns used in estimates of asset-dependent benefits, without considering other aspects of IAS 19. To avoid an existing anomaly, those returns would not be more than the discount rate.</p> <p>If the research establishes that this approach would not be feasible, the staff expects to recommend no work on pensions.</p>
Comments	<p>The research would involve outreach to establish whether the approach:</p> <ul style="list-style-type: none"> • is technically feasible; and • would lead to an improvement significant enough to be worthwhile.

Project	Provisions
Objective	<p>To assess whether the Board should develop a proposal to amend any aspects of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> in the light of changes to the <i>Conceptual Framework</i>.</p>
Comments	<p>Most of the research has been done in previous work. The Board discussed this in July 2015 (with a limited update in the Agenda Consultation in April 2016). The remaining step is to update and finalise the assessment of the implications of the new <i>Conceptual Framework</i>.</p>

Project	SMEs that are Subsidiaries
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"> • 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). • Outreach to establish whether preparers would have sufficient appetite for the package to make it worthwhile to pursue it. • 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. <p>There may be some future interaction with the next review of the IFRS for SMEs Standard (due in 2019).</p>

Project	Variable and Contingent Consideration
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"> • 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? • 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?

Project	Equity Method
Objective	<p>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.</p>
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</p>

	<p>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 on investors' information needs regarding investments for which the equity method is used, in the Post-implementation Review of IFRS 11 <i>Joint Arrangements</i>.</p> <p>Work on subtotals in Primary Financial Statements may identify subpopulations of those investments for which the equity method is used.</p>
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Project	High Inflation: Scope of IAS 29
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"> • 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; • whether extending the scope of IAS 29 would often lead to some countries dipping in and out of the scope of the Standard; and • whether extending the scope of IAS 29 would place extra strain on the approach used by IAS 29.

Project	Pollutant pricing mechanisms
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, during the Agenda Consultation.

Project	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>
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> <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.</p> <p>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.</p> <p>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.</p> <p>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</p>

	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>
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Project	Post-implementation Review of IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>
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.