

STAFF PAPER

February 2018

Board Meeting

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| 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 September 2017.
2. Appendix A lists 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 through <http://www.ifrs.org/projects/work-plan/>.
3. The staff expect to provide the next Research Update in around three or four months.

Research pipeline

4. Paragraphs A12-A17 of appendix A discuss whether and when the Board should start any of the research projects now in the research pipeline. The staff are bringing that discussion to the Board now because we have concluded that it would be appropriate to begin work on some of these projects this year. We also expect that the existing staff, together with planned recruitment will, if that recruitment is successful, provide staff resources to implement the recommendations in this paper.
5. The staff considered, but rejected, recommending the Board start fewer projects than we recommend in this paper and allocating more staff to each one. The

projects we recommend starting this year vary in complexity and likely duration. Most of them would not proceed more quickly or more efficiently if we were to allocate more staff to them. The staff's recommendation would result in a portfolio of projects that is focused, but large enough to help manage peaks and troughs in the Board's workload. This will enable us to make faster progress overall, provided that we do not allow the number of projects to expand too much

6. In the light of the discussion in this paper, the staff recommend starting the following pipeline projects in the next few months:
 - (a) carry out initial scoping work on Variable and Contingent Consideration to assess how broad the research project should be.
 - (b) complete the remaining research on Provisions reasonably soon after the Board issues the *Conceptual Framework*.
 - (c) start the work on Extractive Activities, by asking those national standard setters whose staff contributed to the 2010 Discussion Paper *Extractive Activities* to make the Board aware of any developments since then.
 - (d) start the research on Pension Benefits that Depend on Asset Returns.
 - (e) start the research on SMEs that are Subsidiaries.
7. The staff also recommend that the Board should aim to start the remaining pipeline projects in 2019 or early 2020:
 - (a) Equity Method
 - (b) Pollutant Pricing Mechanisms
 - (c) High Inflation: Scope of IAS 29
 - (d) Post-implementation Reviews of:
 - (i) IFRS 10-12; and
 - (ii) IFRS 5.

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?
2. Do Board members agree with the staff recommendation in paragraphs 6 and 7?

Appendix A: Summary of the Research programme at 31 January 2018

Active research projects

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

| Active projects | |
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| <i>Project</i> | <i>Status</i> |
| Disclosure Initiative—Principles of Disclosure | Discussion Paper issued |
| Financial Instruments with Characteristics of Equity | Drafting Discussion Paper |
| Dynamic Risk Management | Board discussions continue |
| Goodwill and Impairment | Board discussions continue |
| Primary Financial Statements | Board discussions continue |
| Business Combinations Under Common Control | Reactivated September 2017, 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.

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.

| Pipeline projects—now inactive, but likely to start or restart during the period 2018-2021 |
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| Equity Method |
| Extractive Activities |
| Pollutant Pricing Mechanisms |
| Provisions |
| Variable and Contingent Consideration |
| High Inflation: Scope of IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i> |
| Pension Benefits that Depend on Asset Returns |
| SMEs that are Subsidiaries |

- A6. We initially used the informal label ‘feasibility study’ for the last three projects in the pipeline listed above. There are similarities in the scopes of the research for these three projects, and in the intended scope of any follow up standard setting. However, we have stopped using that label because it caused confusion. They are not a different species of project. They are in the pipeline. When active, they will become active research projects like any other.
- A7. We highlight the following points about those three projects:
- (a) In each of those three cases, we aim to assess whether very targeted standard setting is feasible. If we decide it is not feasible, we do not expect to do further work on that topic.
 - (b) Each of these projects will involve mainly outreach and desk research. It might take a few months, up to perhaps a year.
 - (c) We could start these projects at short notice if resources are available, but must keep discipline over the breadth of the work plan.
 - (d) The targeted standard setting would involve limited drafting (except SMEs that are Subsidiaries), but could affect some entities significantly, so the standard setting would still need outreach and testing.

Possible additional research project—commodity loans and related transactions

- A8. In January 2018, at an educational session, the Board discussed a possible research project on commodity loans and related transactions. No decisions

were taken. The staff will bring to a future Board meeting an analysis of whether the Board should consider further action, such as starting a narrow-scope amendment or adding a project to the research pipeline or to the active research programme.

Post-implementation reviews

- A9. We are carrying out a Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement*. We issued a Request for Information in May 2017. The Board discussed the feedback received in January 2018. The feedback confirmed that, overall, IFRS 13 is working well. The Board will discuss at future meetings whether, in the light of the findings of the PIR, it should take any action, for example, developing educational material or starting a project to make a narrow-scope amendment to IFRS 13.
- A10. 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*.
- A11. 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.

Starting pipeline projects

- A12. The staff believe that it is appropriate to start some of the pipeline projects in the next few months.
- A13. We have 8 projects in the research pipeline at present. We expect the research pipeline to cover the period to 2021, and to complete a substantial amount of the work for each project. That implies that we should think about starting work on about 3 to 5 of the projects in 2018 and the remaining 3 to 5 projects by late 2019 or early 2020.

- A14. 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.
- A15. 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.
- A16. In appendix B, we list each of the pipeline projects (as well as the two Post-implementation Reviews we expect the Board to have made substantial progress on by the end of 2021), and assess them against factors (a)-(c), (e) and (g) listed above.
- A17. The staff have also considered factors (d) (overall balance of the active work plan) and (f) (availability of appropriate staff and sufficient Board time). Having considered these factors, the staff comment as follows:
- (a) None of the pipeline projects seems to be so urgent that it should be the first one to be started.
 - (b) The staff recommend starting the following pipeline projects in the next few months:
 - (i) carry out initial scoping work on Variable and Contingent Consideration to assess how broad the research project should be.

- (ii) complete the remaining research on Provisions reasonably soon after the Board issues the *Conceptual Framework*.
 - (iii) start the work on Extractive Activities, by asking those national standard setters whose staff contributed to the 2010 Discussion Paper to make the Board aware of any developments since then.
 - (iv) start the research on Pension Benefits that Depend on Asset Returns.
 - (v) start the research on SMEs that are Subsidiaries.
- (c) The staff recommend that the Board should aim to start the remaining pipeline projects in 2019 or early 2020:
- (i) Equity Method
 - (ii) Pollutant Pricing Mechanisms
 - (iii) High Inflation: Scope of IAS 29
 - (iv) Post-implementation Reviews of (i) IFRS 10-12 and (ii) IFRS 5.

Other activities

A18. Our last Research Update, in September 2017, mentioned the staff's research in the area of wider corporate reporting. In December 2017, the Board considered that research and added to its work plan a standard-setting project to update Practice Statement 1 *Management Commentary*.

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. |
| Previous work | The Board last discussed previous work on this topic in May 2016, during the Agenda Consultation. |
| Urgency | 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. |
| Extent and complexity of research needed | To be determined once we receive feedback from the Post-implementation Review of IFRS 11. |
| Likely time commitment for stakeholders | To be determined. |
| Interactions with other current / future projects | 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 10-12. Work on subtotals in Primary Financial Statements may identify subpopulations of those investments. |
| Most efficient time to carry out the work | When we have some input from the Post-implementation Review (PIR) of IFRS 11 <i>Joint Arrangements</i> . We may not need to wait for end of that future PIR. |

| Project | Extractive activities |
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| 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. |
| Previous work | 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. |
| Urgency | IFRS 6 <i>Exploration for and Extraction of Mineral Resources</i> is a temporary Standard and cannot remain in place permanently. There is growing public interest in disclosure about extractive activities. |
| Extent and complexity of research needed | The initial steps would be to: <ul style="list-style-type: none"> • Review responses to the 2010 Discussion Paper • Identify any significant developments since 2010. • 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. |
| Likely time commitment for stakeholders | Initially, some limited outreach. Perhaps more later on, as the work progresses. |
| Interactions with other current / future projects | None identified |
| Most efficient time to carry out the work | If we are to make substantial progress by 2021, we need to start in the next few months. We could start by asking the national standard-setters who developed the 2010 Discussion Paper to let us know of any developments since 2010. |

| Project | Pollutant pricing mechanisms |
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| 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). |
| Previous work | The Board last discussed previous work on this topic in October 2015, during the Agenda Consultation. |
| Urgency | There does not seem to be any urgent pressure to do anything in the short term. |
| Extent and complexity of research needed | We have performed a reasonable amount of research, but have lost momentum and will be restarting from near zero. |
| Likely time commitment for stakeholders | Initially, some limited outreach. Perhaps more later on, as the work progresses. |
| Interactions with other current / future projects | Some interaction with Provisions and perhaps also with Rate-regulated Activities. |
| Most efficient time to carry out the work | No timing factors identified. |

| Project | Provisions |
|---|---|
| Objective | 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 forthcoming changes to the <i>Conceptual Framework</i> . |
| Previous work | 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). |
| Urgency | In the light of new guidance in the <i>Conceptual Framework</i> on existence of an obligation, some stakeholders will want the Board to revisit without delay parts of IAS 37 that underlie IFRIC 21 <i>Levies</i> . |
| Extent and complexity of research needed | Most of the work has been done. The remaining step is to update and finalise the assessment of the implications of the new <i>Conceptual Framework</i> . |
| Likely time commitment for stakeholders | None. No further outreach needed at this stage. |
| Interactions with other current / future projects | <p>In November 2017, the IFRS Interpretations Committee decided to consider a project on ‘unavoidable costs’ in the definition of an onerous contract in IAS 37.</p> <p>Some work on guidance supporting the definition of liabilities might be pertinent for Pollutant Pricing Mechanisms.</p> |
| Most efficient time to carry out the work | The natural time to start this would be after finishing the <i>Conceptual Framework</i> . |

| Project | Variable and Contingent Consideration |
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| 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> |
| Previous work | This project came out of referrals from the IFRS Interpretations Committee. |
| Urgency | Not time-critical, as far as we are aware, although the IFRS Interpretations Committee could not reach conclusions because of interactions between several Standards. |
| Extent and complexity of research needed | <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? |
| Likely time commitment for stakeholders | Too early to say |
| Interactions with other current / future projects | None identified. Some interactions with recent Standards (including IFRS 15 <i>Revenue from Contracts with Customers</i> , IFRS 16 <i>Leases</i>) and the new <i>Conceptual Framework</i> , as well as with existing requirements, for example those in IFRS 3 <i>Business Combinations</i> . |

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| Most efficient time to carry out the work | Because the scope is yet to be determined, it might be useful to start the work relatively soon to enable the Board to make some progress over the current agenda cycle (before 2021). |
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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 Economies</i> to cover economies subject to only high inflation, without amending other requirements of IAS 29.</p> <p>If the research establishes that it would not be feasible to extend the scope of IAS 29 in this way, the staff expects to recommend no work on IAS 29.</p> |
| Previous work | None |
| Urgency | Not time-critical, as far as we are aware. |
| Extent and complexity of research needed | <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. |
| Likely time commitment for stakeholders | Outreach, which may require some stakeholders (particularly users) to consider scenarios they have not thought about before. |

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| Interactions with other current / future projects | None identified |
| Most efficient time to carry out the work | No timing factors identified |

| Project | Pension Benefits that Depend on Asset Returns |
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| 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> |
| Previous work | None |
| Urgency | Not time-critical, as far as we are aware. |
| Extent and complexity of research needed | <p>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. |
| Likely time commitment for stakeholders | Limited. Participation in outreach only. |
| Interactions with other current / future projects | None identified |

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| Most efficient time to carry out the work | When staff with specialist knowledge become available. We are monitoring an EFRAG project on hybrid pensions. |
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| 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> |
| Previous work | <p>None</p> <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> |
| Urgency | Not urgent |
| Extent and complexity of research needed | <ul style="list-style-type: none"> • Investigate 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. • Assess 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. |

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| Likely time commitment for stakeholders | Outreach only |
| Interactions with other current / future projects | Possibly some future interaction with the next review of the IFRS for SMEs Standard (due in 2019). |
| Most efficient time to carry out the work | Before starting the next comprehensive review of the IFRS for SMEs Standard, which is due in 2019. |

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| 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. |
| Previous work | None |
| Urgency | 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.’ |
| Extent and complexity of research needed | Normal PIR |
| Likely time commitment for stakeholders | Participation in outreach, comment on request for information if the Board proceeds to the second stage of the PIR. |
| Interactions with other current / future projects | Input from PIR of IFRS 11 may be useful for Equity Method. |

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| <p>Most efficient time to carry out the work</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 2018, 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 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.</p> <p>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. |
| Previous work | None by the Board, some work by IFRS Interpretations Committee. |
| Urgency | <p>Not time sensitive, as far as we are aware, although the IFRS Interpretations Committee could not reach conclusions on some issues in IFRS 5.</p> <p>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 Committee.</p> |
| Extent and complexity of research needed | Normal PIR |
| Likely time commitment for stakeholders | Participation in outreach, comment on request for information if the Board proceeds to the second stage of the PIR. |
| Interactions with other current / future projects | Possibly with Primary Financial Statements |
| Most efficient time to carry out the work | <p>No timing factors identified.</p> <p>We originally planned to start this PIR at some point after starting the PIR of IFRS 10-12. Nevertheless, there is no reason for the PIR of IFRS 5 to wait for the PIR of IFRS 10-12. Moreover, because the Standard has been in effect since 2005, it is unnecessary to wait for more evidence to become available before starting the PIR.</p> |