

Research and Standard Setting

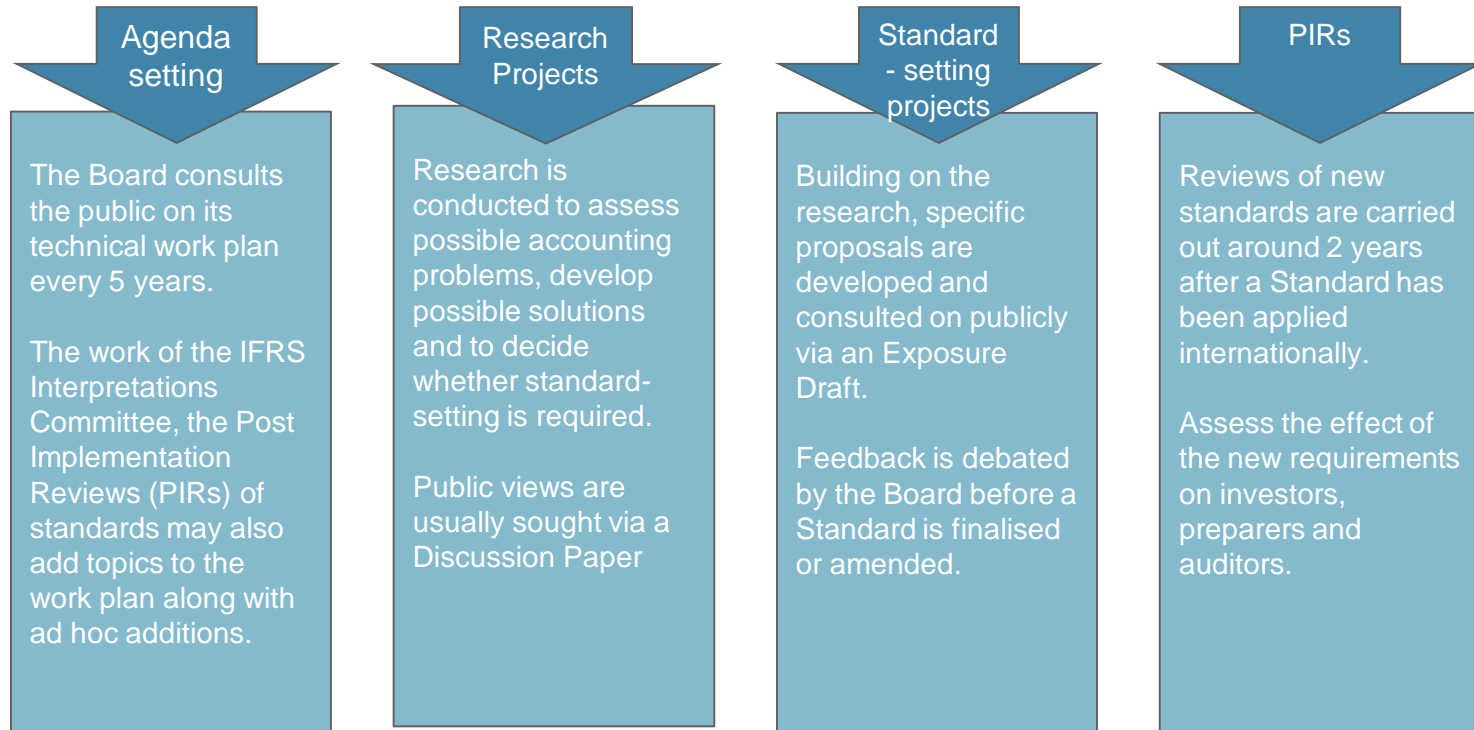
How to contribute to the IASB's work

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November 2017

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

Standard-setting process

The standard setting process



Research programme

- A broad research and development programme
 - lower threshold to get onto the programme
 - higher threshold to progress further
- 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 Exposure Draft phase on a timely basis

- A recommendation to:
 - propose a change to IFRS Standards
 - put a project on hold, for the time being
 - resourcing
 - other factors
 - stop working on the issue
 - develop education or support material

- IASB External Research Website
 - <http://www.ifrs.org/research-centre/>
- Evidence-supported standard-setting
 - explanations of when, and how, we use research
- Research opportunities
 - IASB Research Forum
 - literature reviews for PIRs
 - ASAF research
 - external research funding

Projects

Disclosure Initiative – Principles of Disclosure

Primary Financial Statements

Business Combinations under Common Control

Dynamic Risk Management

Financial Instruments with Characteristics of Equity

Goodwill and impairment

Research pipeline

Topic	Comments
Equity method	A number of queries over time. Topic to be investigated as part of PIR of IFRS 11 <i>Joint Arrangements</i>
Extractive activities	Important globally and particularly in some jurisdictions. A permanent solution is needed to fill a gap. Larger topic of intangibles has been removed from this project to enable a more effective and efficient approach.
Pollutant pricing mechanisms	An analysis of the common economic characteristics of the various schemes will be needed
Provisions	Initial research on IAS 37 is largely complete, awaiting finalisation of revised <i>Conceptual Framework</i>
Variable and contingent consideration	Cross-cutting issue raised in agenda consultation and in earlier deliberations of other topics. This work may also lead to follow on work on risk-sharing and collaborative arrangements

Topic	Comments
High inflation	Assess whether it is feasible to extend the scope of IAS 29 to cover economies subject to high, rather than hyper, inflation. No other work is planned on IAS 29.
Pension benefits	Assess whether it is feasible to develop an approach for benefits that depend on asset returns: cash flows included in the measurement of the benefit would not exceed the discount rate. No other work is planned on IAS 19
SMEs that are subsidiaries	Assess whether it is feasible to permit subsidiaries that are SMEs to use: <ul style="list-style-type: none">• the recognition and measurement of IFRS Standards with• the disclosure requirements for SMEs

- The pipeline projects present broad opportunities for researchers
 - They have not commenced and thus have a longer time line for research activity
 - They include some projects where scope has not been defined and problem definition has not been clarified, allowing for many research angles
 - Eg Equity accounting
 - They include topics where Australian/NZ researchers have interest and expertise
 - Eg Extractive industries, pollutant pricing mechanisms

Post implementation reviews

IFRS Standards	
	IFRS 13 <i>Fair value measurement</i> (commenced)
Next	IFRS 10 <i>Consolidated Financial Statements</i>
	IFRS 11 <i>Joint Arrangements</i>
	IFRS 12 <i>Disclosure of Interests in Other Entities</i>
From IFRIC	IFRS 5 <i>Non-current assets Held for Sale and Discontinued Operations</i>
Further out	IFRS 9 <i>Financial Instruments</i>
	IFRS 15 <i>Revenue from Contracts with Customers</i>
	IFRS 16 <i>Leases</i>
	IFRS 17 <i>Insurance Contracts</i>

- PIRs can be enhanced by contributions from academics
- The IASB will call for literature reviews prepared by academics
- The schedule for PIRs indicates the IFRS Standards where the Board will:
 - consider important or contentious issues in the development of the Standard
 - consider issues that have come to the Board's attention since issue of the Standard
 - identifies areas where unexpected costs or implementation problems were encountered

Principles of Disclosure

The disclosure problem

- Board has identified three main concerns about disclosures in financial statements:
 - Not enough relevant information
 - Too much irrelevant information
 - Ineffective communication



Principles of effective communication



Principles on where to disclose information

Roles of primary financial statements and of notes

Location of information



Principles to address specific concerns expressed by users of financial statements

Use of performance measures

Disclosure of accounting policies



Improving disclosure objectives and requirements

Centralised disclosure objectives

Drafting disclosure requirements

- More evidence about:
 - the impact for users of location of information
 - value of information given by alternative performance measures
 - factors promoting useful disclosure in more complex and subjective areas (routine, non-recurring; commercially sensitive; estimations)
 - how different approaches in standards are effective in promoting material disclosures (ie principles vs specific requirements eg IFRS 3, IAS 36)

Primary Financial Statements – scope

Enhance comparability and improve communication

Statement(s) of Financial Performance
Require Additional EBIT-type Subtotal?
Require Investing Category?
Permit or Require a Management Performance Measure?
Better ways to communicate OCI?

Statement of Cash Flow
Require a consistent starting point for the reconciliation?
Eliminate options for interest/dividends?

Statement of Financial Position
No planned change – possibly greater disaggregation



- The Board is considering introducing more specific presentation requirements
- Research questions:
 - what are current practices?
 - to what extent is there diversity in presentation? What factors explain presentation choices?
 - how do choices impact on the transparency and comparability of the information provided?
 - how do users deal with variations in presentation?
 - what are the costs and benefits of possible changes to presentation requirements?

Business combinations under common control (BCUCC)

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BCUCC excluded from the scope of IFRS 3 *Business Combinations*



Project to address concerns about diversity in practice for BCUCC and group restructurings

- Predecessor method commonly used
- Acquisition method prescribed by IFRS 3 used in some cases

Diversity in applying the predecessor method

Particular focus on transactions that affect equity investors outside group

Alternatives to explore

Acquisition method

Predecessor method

...another method?

Which method(s)
should be explored for the transactions
within the scope of the project?

single
method
for all transactions?

different
methods depending
on the characteristics
of a transaction?

how to choose which
method to apply to a
transaction?

which combination of
methods to consider?

- Evidence to answer the questions on the previous slide may include:
 - which methods (acquisition, predecessor or other) are applied in practice (eg descriptive statistics from financial statements)
 - views of preparers and users (from interviews and surveys)
 - studies investigating information asymmetry between the restructuring entity and investors (theory and empirical studies)

Financial Instruments with Characteristics of Equity

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Classification

- Still a single distinction (liability or equity)
- Underpin principles in IAS 32
- May differ from Conceptual Framework ('no practical ability to avoid')

Presentation

- Separate presentation for liabilities based on value of residual
- Expanded statement of changes in equity (including attribution of performance to classes of equity)

Disclosure

- Consider investor information needs re: dilution, liquidity, solvency
- Interaction with EPS?

- Considering the proposals in the FICE DP:
 - to what extent will entities' classifications of claims as equity or liability change? (eg review of current financial statements)
 - gather evidence from users (from interviews or experiments) regarding changes to presentation and disclosure requirements.
- What are strengths and weaknesses of the current requirements for calculating diluted EPS? What are the implications of changes outlined in the FICE DP for EPS calculations?

Feedback from PIR of IFRS 3 *Business Combinations*

- Complex and costly impairment test
- Delays in recognition of impairment
- Inadequate disclosures
- Question whether separation of particular intangibles is always useful

Board's research project

- Possible:
 - improvements to impairment test
 - amortisation of goodwill
 - subsuming particular intangibles into goodwill
 - additional disclosures

Board discussions
through end 2017

Discussion Paper
H1 2018

- Considering various proposals for improvements to the impairment test (in Board papers and elsewhere), what are likely costs and benefits for preparers and users (eg interviews, surveys, experiments)?
- Recognised vs unrecognised goodwill and other intangible assets: How do users deal with the asymmetric accounting treatments?
- IFRS 3 requires separate recognition of identifiable intangible assets acquired. Has this provided relevant information?



Discount rates [research completed March 2017]

- Some issues being considered in other current or planned projects
- List of matters for staff to consider in future projects
- Future education session on negative interest rates
- No other work planned

Share-based payments [research completed May 2016]

- No further work planned

Next step:

- publish summary of research, H1 2018

- Run jointly with Abacus
- Early November 2018, dates to be confirmed
- In Sydney
- Aiming for about 100 attendees, half academic half non-academic
- Call for papers from Abacus should be announced soon

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