



Project:	Research Centre	Meeting:	M192
Topic:	Research update	Agenda Item:	9.1
		Date:	28 November 2022
Contact(s):	Eric Lee elee@asb.gov.au	Project Priority:	N/A
		Decision-Making:	N/A
		Project Status:	Report to Board

Objectives of this paper

- 1 The objective of this agenda item is to provide the Board with updates on the key AASB Research Centre activities.
- 2 No decisions need to be made by the Board as part of this update.

Attachments

Agenda Paper 9.2	AASB Research Report 17 (MASB Research Report): <i>Transition Relief and Ongoing Practical Expedients in IFRS 16 Leases</i> [supporting documents folder]
Agenda Paper 9.3	Task Force on Climate-related Financial Disclosures (TCFD) Implementation: An Overview and Insights from the Australian Accounting Standards Board Dialogue Series [supporting documents folder]
Agenda Paper 9.4	AASB Research Centre Working Paper 4: <i>Accounting and Accountability for No Net Loss of Biodiversity</i> [supporting documents folder]
Agenda Paper 9.5	AASB Research Centre Working Paper 5: <i>Building Trust with Material and Immaterial CSR: Benefits and Consequences</i> [supporting documents folder]
Agenda Paper 9.6	Digital currency – A case for standard setting activity [supporting documents folder]

Summary of key activities

Recent publications

AASB Research Report

- 3 [AASB Research Report 17 \(MASB Research Report\): *Transition Relief and Ongoing Practical Expedients in IFRS 16 Leases*](#)¹ was published in October 2022.
- 4 The research report is a joint project with the Malaysian Accounting Standards Board (MASB). It identifies some lessons learnt from implementing IFRS 16 that might prove helpful

¹ https://asb.gov.au/media/o5pp2awg/rr17_trajasbmasbproject_10-22.pdf

in identifying transition relief and ongoing practical expedients to be made available in future (new or amended) IFRS Accounting Standards.

- 5 In October 2022, the AASB Chair, Dr Keith Kendall, and MASB Chairman, Datuk Mhd Nasir Ahmad, met in Kuala Lumpur, Malaysia, to announce the first joint publication.²
- 6 Staff presented the research findings at the November 2022 14th Annual Asian-Oceanian Standard-setters Group (AOSSG) annual meeting. Staff will also present the research at the upcoming International Forum of Accounting Standard Setters (IFASS) meeting in January 2023.

Australian Accounting Review publication

- 7 An article titled, [*Task Force on Climate-related Financial Disclosures \(TCFD\) Implementation: An Overview and Insights from the Australian Accounting Standards Board Dialogue Series*](#)³ was published in the Australian Accounting Review volume 32, issue 3 (September 2022).
- 8 The article provides an overview of recent developments and the regulatory position on sustainability reporting in Australia. It also summarises the discussion at the March 2022 dialogue series session on the TCFD.

AASB Dialogue Series

2022 AASB Dialogue Series

- 9 A virtual dialogue series session on *External reporting for not-for-profit private sector entities* was held on 14 September 2022 (Wednesday) 12-1 pm. Sixty-six domestic and international stakeholders attended the session. Professor David Gilchrist (University of Western Australia) was the keynote speaker. Associate Professor Ralph Kober (Monash University) moderated the session. The panel discussants were Mel Yates (Australian Charities and Not-for-profits Commission), Ben Murray (Office of the Registrar of Indigenous Corporations), Ellie Norris (Charles Darwin University) and Isabelle Lefevre (Deloitte Australia). The recording is available on the [AASB webpage](#).

2023 AASB Dialogue Series

- 10 Jointly with the CPA Australia and CA ANZ, the following sessions are planned for the 2023 dialogue series:

2023	Topics
February	Digital Assets
May	Going Concern Disclosures [jointly with AUASB]
October	Understandability of Accounting Standards
November	Materiality Judgements

- 11 Further details about the sessions will be shared in future meetings.

² See media release: <https://aasb.gov.au/media-releases/australian-and-malaysian-standards-board-publish-first-joint-research/>

³ <https://onlinelibrary.wiley.com/doi/full/10.1111/auar.12388>

AASB Research Forum

2022 AASB Research Forum

- 12 The AASB will co-host the 2022 Research Forum with RMIT College of Business and Law on Monday, 5 December. The forum will be held in Melbourne at Dexus Place. Attendees can also attend the forum via a virtual platform or at the University of Queensland in Brisbane. At the time of writing this staff paper, more than 160 domestic and international stakeholders have registered to attend the forum in person or via the virtual platform.

2023 AASB Research Forum

- 13 The 2023 AASB Research Forum's theme is "Connectivity of financial and non-financial information". Nine research proposals were received in response to a call for expressions of interest.
- 14 In consultation with the AASB Academic Advisory Panel (AAP), the following research topics will be presented in the 2023 forum, with support from AAP members as consultants:

Topics	Research teams	Consultants (AAP members)
The use of forward-looking statements in management commentaries	Dr Tejshree Kala (The Australian National University) Associate Professor Marvin Wee (The Australian National University)	Professor Stephen Taylor Professor Peter Wells
Australian listed companies' readiness for baseline and extended sustainability disclosures	Professor Christin Jubb (Swinburne University) Dr Zihan Liu (University of Otago)	Honorary Professor Paul Mather Associate Professor Tom Scott
Evolving practices and implications of climate-related risk disclosure in Australian extractive industries	Professor Millicent Chang (University of Wollongong) Dr Jing Yu (University of Sydney)	Professor Kathleen Herbohn Professor Mark Wilson
Climate and the accounting standards	Dr Tanya Fiedler (University of Sydney)	Professor Lee Moerman Dr Mark Shying

- 15 Further details about the 2023 forum will be shared in future meetings.

AASB SSRN Working Papers

- 16 The following two papers were accepted and published at the AASB SSRN Working papers since the September 2022 meeting:

Title	Authors	Summary
AASB Research Centre Working Paper 4: Accounting and Accountability for No	Dr Claire Horner (University of Tasmania)	The paper demonstrates no net loss of biodiversity can be accounted for easily within the existing parameters of the accounting standards and the System of Environmental and Economic

Net Loss of Biodiversity (September 2022)	Anthony O’Grady (CSIRO) Sue Ogilvy (Farming for the Future) Himadri Mayadunne (Ellis Richmond – Local Carbon) Tianrui (Maria) Zhao (Ellis Richmond – Local Carbon)	Accounting-Ecosystem Accounting framework, with little adaption required. This paper contributes to discussions about the connectivity of financial and non-financial information, considering the fundamental role of biodiversity in the supply of ecosystem goods and services to global financial stability.
AASB Research Centre Working Paper 5: Building Trust with Material and Immaterial CSR: Benefits and Consequences (October 2022)	Dr Hien Hoang (UNSW Sydney School of Accounting, Auditing and Taxation) Dr Soon-Yeow Phang (Monash University)	By conducting experiments, this paper finds that investors use material and immaterial CSR issues for decision-making. It contributes to the key concept of double materiality as a critical driver for generating values and managing company risks. This paper has recently been accepted for publication in the forthcoming Contemporary Accounting Research .

Research projects

A summary of the research work program is provided in [Appendix A](#).

Digital assets

- 17 In October 2022, CPA Australia submitted a letter to the Board concerning the recent rapid development of cryptoassets (see agenda item 11.2).⁴ The letter suggested that the Board initiate a research project to better understand the developments of cryptoassets and consider developing suitable accounting requirements or guidance as required.
- 18 At the [June 2022 AASB meeting](#) (M188), as part of the AASB agenda consultation for 2022-2026, the Board decided not to have a separate digital assets project. This topic will be scoped into the intangible assets project (i.e. a cross-cutting project), which will commence soon.⁵
- 19 Since 2016, staff have been monitoring the development of cryptoassets, such as digital currency (or cryptocurrency). An AASB report [Digital currency – A case for standard setting activity](#) (authored by Henri Venter) was presented at the December 2016 Accounting Standards Advisory Forum (ASAF) meeting.
- 20 In July 2019, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision on the accounting for cryptocurrencies⁶ (a subset of cryptoassets), indicating that they are not financial assets and entities should apply IAS 2 *Inventories* or IAS 38 *Intangible Assets*. In particular, the Committee concluded that IAS 2 applies to cryptocurrencies held for sale in

⁴ See Agenda Paper 11.2 for the letter from the CPA Australia.

⁵ https://www.aasb.gov.au/media/1b4iqsgn/08-2_sp_agendaconsultresponses_m188_pp.pdf

⁶ The IFRS IC defined a cryptocurrency as a crypto-asset with the following characteristics: “a) digital or virtual currency recorded on distributed ledger that uses cryptography for security, b) not issued by a jurisdictional authority or another party, and c) does not give rise to a contract between the holder and another party”.

the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 to holdings of cryptocurrencies, which permits fair value measurement in an active market.⁷

- 21 Even though the Committee finalised and issued the agenda decision, stakeholders have been sharing concerns about the increasing prevalence of cryptocurrencies and other digital assets and suggested that the IASB (and other national standard-setters) add a project to its work plan.
- 22 However, after considering feedback received from its Third Agenda Consultation, the IASB decided not to add the project to its work plan because:
- (a) it is unclear whether cryptoassets or other related transactions are prevalent in many jurisdictions or have a pervasive effect on the financial statements of many entities;
 - (b) a project to consider the accounting for different types of cryptoassets and cryptoliabilities would be complex and might be premature, given such cryptoassets and cryptoliabilities are part of a new and rapidly evolving ecosystem;
 - (c) IFRS Committee had already issued an agenda decision; and
 - (d) the Intangible Assets project will review the scope of IAS 38, including whether cryptocurrencies should remain with it.⁸
- 23 Staff have considered overall stakeholders' concerns and the IASB's considerations. As the intangible assets project is about to commence, staff are conducting outreach (jointly with the CPA Australia and Associate Professor Andrew Jackson from the University of New South Wales) to obtain preliminary views from stakeholders. The outreach will focus on the following questions, but not limited to:
- (a) whether digital assets are prevalent in Australia (and other jurisdictions) or have a pervasive effect on the financial statements of entities;
 - (b) types of cryptoassets and cryptoliabilities;
 - (c) reporting and accounting concerns; and
 - (d) future directions.
- 24 The upcoming February 2023 dialogue series session will share the preliminary findings for feedback, and a research report will be published in Q3 2023.

AASB 17 Insurance Contracts survey

- 25 AASB 17 *Insurance Contracts* applies to annual reporting periods beginning on or after 1 January 2023. AASB 17 Transition Resource Group (TRG) and staff are conducting a survey to understand the policy choices made by insurers in relation to the transition approaches, recognition, measurement, and disclosures. The TRG has developed and distributed the survey to about 50 insurance entities. These entities were selected based on scales, significance and insurance products.
- 26 A report summarising the survey findings will be published in Q1 2023. The findings will contribute to the post-implementation review of AASB 17.

Cost of capital

- 27 One of the statutory functions of the AASB is to advance and promote the main objects of Part 12 of the ASIC Act, which include reducing the cost of capital, enabling Australian

⁷ IFRIC Update June 2019 IASB website, <https://www.ifrs.org/news-and-events/updates/ifric/2019/ifric-update-june-2019/>, accessed on 28 November 2022.

⁸ <https://www.ifrs.org/content/dam/ifrs/project/third-agenda-consultation/thirdagenda-feedbackstatement-july2022.pdf>

entities to compete effectively overseas and maintaining investor confidence in the Australian economy.

- 28 In order to gain a better understanding of how the cost of capital could be measured, a tendering process was conducted in October 2022 in search of experienced researchers on the topic. The objective of the project is to examine and develop models that could potentially be used for determining the cost of capital and provide more informed decision-making during standard-setting processes.
- 29 The following two research teams have agreed to work on the project:
- (a) Associate Professor Andrew Jackson (University of New South Wales) and Professor Marlene Plumlee (University of Utah); and
 - (b) Professor Dean Hanlon (RMIT) and Professor Cameron Truong (Monash University).
- 30 Research reports are expected to be finalised in Q2 2023 that include, but are not limited to:
- (a) a literature review;
 - (b) an in-depth discussion of the cost of capital and related models; and
 - (c) recommend models most suitable for the AASB to apply for determining the cost of capital in its standard-setting process.
- Frequency, magnitude, nature and key audit matters for intangible assets in the financial statements of Australian listed companies**
- 31 As part of the intangible assets project, research has been undertaken to understand the frequency, magnitude, nature and key audit matters for intangible assets in the financial statements of Australian listed companies.
- 32 This research is primarily conducted by Professor Matthew Pinnuck (University of Melbourne) and Dr Mark Wallis (University of Queensland), with support from the AASB and AUASB staff.
- 33 The research report is expected to be published in Q1 2023.

Question to the Board

Do Board members have any comments or questions?

Appendix A: AASB Research Work Program

Project	Staff comment	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Understandability of accounting standards (collaboration with the University of Adelaide)	This project investigates the problems of the understandability of IFRS from the perspective of national standard setters.	Data collection		Draft report		
Common transactions of Tier-3 NFP entities	The objective of this project is to provide evidence that supports the NFP Financial Reporting Framework project. Staff are currently collecting data to conduct a preliminary analysis of tier-3 NFP entities' financial statements.	Data collection	Draft report			
Intangibles reporting	Refer to agenda item 8.	Project plan	Outreach (Stage 1: Intangible metrics)	Outreach/ Draft report (Stage 1: Intangible metrics)	Draft report (Stage 1: Intangible metrics)	Final report (Stage 1: Intangible metrics)
Going concern disclosures (jointly with the AUASB)					Project plan	
Joint research IASB and AASB: Making materiality judgements	<p>The following projects are being undertaken:</p> <ul style="list-style-type: none"> The effectiveness of materiality judgements (Tom Frick, Professor Michael Davern and Associate Professor Brad Potter) IFRS Practice Statement 2 (<i>Making Materiality Judgements</i>): Its meaning and application in 					Final reports

	practice (Associate Professor Dr Noor Adwa Sulaiman and Dr Nahariah Jaffar)					
Digital assets (jointly with the CPA Australia and Associate Professor Andrew Jackson from the University of New South Wales)	<p>The project will focus on the following questions, but not limited to:</p> <ul style="list-style-type: none"> (a) whether digital assets are prevalent in Australia (and other jurisdictions) or have a pervasive effect on the financial statements of entities; (b) types of cryptoassets and crytoliabilities; (c) reporting and accounting concerns; and (d) future directions. 	Outreach	Outreach/ Draft report			
Costs of capital	<p>The objective of the project is to examine and develop models that could potentially be used for determining the cost of capital and provide more informed decision-making during standard-setting processes.</p> <p>This project is undertaken by the following research teams:</p> <ul style="list-style-type: none"> (a) Associate Professor Andrew Jackson (University of New South Wales) and Professor Marlene Plumlee (University of Utah); and 			Final reports		

	(b) Professor Dean Hanlon (RMIT) and Professor Cameron Truong (Monash University).					
Frequency, magnitude, nature and key audit matters for intangible assets in the financial statements of Australian listed companies	<p>As part of the intangible assets project, research has been undertaken to understand the frequency, magnitude, nature and key audit matters for intangible assets in the financial statements of Australian listed companies.</p> <p>This research is primarily conducted by Professor Matthew Pinnuck (University of Melbourne) and Dr Mark Wallis (University of Queensland), with support from the AASB and AUASB staff.</p>	Draft report	Final report			
<i>AASB 17 Insurance Contracts</i> survey	<p>AASB 17 Transition Resource Group (TRG) and staff are conducting a survey to understand the policy choices made by insurers in relation to the transition approaches, recognition, measurement, and disclosures.</p> <p>The findings will contribute to the post-implementation review of AASB 17.</p>	Data collection	Final report			