

A&F/IASB Research Forum: notes by Steven Cahan, past editor *Accounting & Finance*

The International Accounting Standards Board held a Research Forum in Hong Kong on 11 October 2015 in conjunction with *Accounting & Finance*, the journal of the Accounting and Finance Association of Australia and New Zealand. The theme of the Forum was “Consequences of IFRS for Capital Markets, Managers, Auditors and Standard-setters”. The event was held at the office of Deloitte HK overlooking Victoria Harbour and was attended by over 85 including IASB board members, IASB staff, academics, and practitioners.

The one-day Forum featured a panel session and six academic papers. The panel session focused on the role of financial statements in reporting financial performance and was chaired by Hugh Shields, Executive Technical Director at the IASB. Panellists included Hans Hoogervorst, chair of the IASB, Mary Barth from Stanford University, Gary Biddle from the University of Hong Kong, and Katherine Schipper from Duke University. The panel divided their session into three parts, focusing on intangible assets, cost of capital, and non-GAAP financial performance measures.

The three topics generated a lively and spirited debate. For example, while panellists agreed that the financial statements may ignore a majority of a firm’s market value because of unrecorded intangibles, there was less agreement on what this means for financial reporting. While Gary suggested that by not recording these values, accounting could become irrelevant, Mary and Hans felt the value of internally generated intangibles are too imprecise to record on the balance sheet. Katherine took a different approach and argued that the assumptions underlying the statement that the “traditional financial statements do not properly account for intangible assets which are increasingly the main drivers of wealth creation” are invalid. Further, it was pointed out that investors seem to be doing fine in formulating their own estimates.

On the topic of cost of capital, Gary emphasised the need for financial statements to show what firms are earning after accounting for their cost of capital, while Katherine felt that this is a financial analysis issue, not a financial reporting issue. On the topic of non-GAAP earnings, Hans noted that, even if users make adjustments to GAAP earnings, GAAP earnings are important because they provide a credible benchmark for investors. Still, he thought the IASB may need to address how non-GAAP earnings are presented. Mary suggested that the proliferation of non-GAAP figures could be viewed a signal that the information provided in the financial statements about certain items is deficient and that better presentation or disclosure is needed.

The six papers covered a variety of topics and methodologies. A unique feature of the Forum was that each paper had an academic discussant and a commentator from the IASB. The first paper was a survey of the research on comprehensive income and was presented by Dirk Black from Dartmouth College. The academic discussant was Mike Bradbury from Massey University and the IASB commentator was Sue Lloyd, an IASB board member. Sue's commentary and the following question and answer period highlighted the different perspectives of the standard-setters and academics at the Forum. Specifically, standard-setters were very interested in normative questions, e.g., should items be recycled from OCI to profit/loss, and if so when? While Dirk explained the difference between positive and normative approaches, it was interesting to see that the two groups viewed the research through very different lenses.

The second paper was a quantitative analysis of non-GAAP earnings disclosures in Australia and was presented by Marvin Wee of the University of Western Australia. The study found that non-GAAP disclosing companies are more likely to have analyst adjustments to earnings for these items and lower analyst forecast error and dispersion in the following year. The academic discussant was Agnes Cheng of Hong Kong Polytechnic

University and the IASB commentator was Hugh Shields. In his commentary, Hugh said that the study was relevant to the IASB's disclosure initiative. However, he also stressed that the IASB would be interested in seeing new conceptual thinking rather than more statistical analyses.

The third paper reported the results of an experiment examining the effects of different accounting treatments for the acquisition premium (i.e., goodwill or identifiable intangible assets) on equity valuations by financial analysts in Sweden. The presenter was Niclas Hellman from the Stockholm School of Economics. The academic discussant was Fei Du of the University of Hong Kong and the IASB commentator was Chungwoo Suh, an IASB board member. In his commentary, Chungwoo said while the paper was relevant to the IASB post-implementation review of IFRS 3, he was also interested in the normative implications, e.g., does the IASB need to keep two approaches for treating the acquisition premium and does the IASB need different accounting treatments for business acquisitions as opposed to asset acquisitions?

The fourth paper examined the long-term effects of IFRS adoption on the audit fees of New Zealand firms and was presented by David Lont of the University of Otago. The academic discussant was Simon Fung of Hong Kong Polytechnic University and the IASB commentator was Darrel Scott, an IASB board member. In his commentary, Darrel related the study to his past experience as an auditor and felt the story was "intuitively correct". He gave examples of cost stickiness and differential pricing which supported the authors' empirical results.

The fifth paper focused on whether some Israeli firms paid dividends from unrealised earnings after that country switched to IFRS as the previous Israeli GAAP was more cost based. The authors find that in the post-IFRS period 33% of the firms in their sample pay dividends from unrealized earnings. The paper was presented by Estery Chen of the Peres

Academic Center. The academic discussant was Shiheng Wang from the Hong Kong University of Science and Technology and the IASB commentator was Kumar Dasgupta, a Technical Director at the IASB. Kumar's commentary focused mainly on academic issues as he commented on causality and the underlying assertions in the paper.

The sixth paper examined asset impairments by Australian firms and whether these were impacted by the more prescriptive IAS 36 (AASB 136 in Australia). The presenter was David Bond of the University of Technology, Sydney. The academic discussant was Zili Zhuang of the Chinese University of Hong Kong and the IASB commentator was Gary Kabureck, an IASB member. In his commentary, Gary said the study was timely as the IASB is considering whether the impairment tests in IAS 36 need to be improved. Interestingly, in the study, the authors found that only 11.4% of firms in their sample that had a book value in excess of market value (an indicator of impairment) actually recorded an impairment.

For those who are interested, all six papers and the complete comments of the academic discussants will be published in *Accounting & Finance* in 2016 and will be available through the journal's website in Early View by the end of 2015.

Overall, the Research Forum was a success and is one step in building a dialogue between academics and standard-setters. For academics, that is important as we often talk about our research having an impact on practice. The Research Forum provided the academic attendees a rare opportunity to discuss research and interact directly with board members and staff of the IASB. Fortunately, the IASB intends to hold a Research Forum each year in conjunction with a different journal. According to Anne McGeachin, Technical Principal and head of Academic Relations at the IASB, the 2016 Research Forum will be held in Waterloo, Canada in conjunction with *Contemporary Accounting Research*.

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