

IFRS Research Round-up

The IFRS Research Round-up is a staff summary of news relating to the IFRS Research Centre.



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Welcome to the IFRS Research Round-up

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*Hans Hoogervorst,
Chairman, IASB*

Enhancing the IASB's research capacity

Welcome to our new research pages and to this publication, the IFRS Research Round-up.

We recognise the importance of high quality research to help the IASB develop financial reporting Standards and assess the outcomes of those Standards. The research community has a particularly important role to play by undertaking analysis and research that is independent.

The use of research in standard-setting is not new to the IASB. We have IASB members and staff that have experience of research methods and academic research generally. We have always worked to ensure that the IASB has adequate access to such skills, inside or outside the organisation. But there is always room for improvement.

As we started the second decade of this organisation, our Trustees recommended that we establish a more structured and formal research capability. Our constituents have also encouraged us to increase our research efforts to support individual projects. Evidence-informed decision making, supported by good research, is a good basis for strong standard-setting. The initiatives we are launching today are designed to enhance our engagement with the broader research community.

We are aware that the priorities of the academic community do not always encourage researchers to undertake work that is directly relevant to a standard-setter. However, we have been looking at ways to tackle this problem to encourage academics to undertake research that addresses matters that the IASB intends to examine. In this regard, we have established an annual IFRS Research Forum. The first will take place in October 2014 and will be held at SAïD Business School at Oxford University, in conjunction with *Accounting and Business Research*.

In these forums, researchers will have the chance to both discuss their research with peers and members of the IASB and publish their papers in special issues of established and reputable journals. This last step protects the academic integrity of the Research Forum and the independence of the evidence-based standard-setting that we are seeking to encourage.

Being aware of the IASB's needs is also important. Rather than relying on potential researchers reaching into the IASB, these new web pages and the IFRS Research Round-up are small steps that we are taking to improve how we reach out and communicate with the broader research community. I hope you find them helpful.



*Guillermo Braunbeck,
Project Manager,
IFRS Education Initiative*

An overview of the IFRS Research Centre

The IFRS Research Centre (the 'Research Centre') is an initiative of the IASB designed to support the establishment of a dedicated research capability. Such a research capability will draw upon a combination of internal and external intellectual resources, including the engagement of the academic community. The Research Centre homepage (<http://go.ifrs.org/IFRS-Research-Centre>) displays the four main sections of the Research Centre: How you can help, Get started, Get involved and Stay informed. The homepage also displays forthcoming research-related events and contact details.

In the **How you can help** section (<http://go.ifrs.org/How-you-can-help>) you will find descriptions of the research issues on which the IASB will be working in the next two to three years. These are perceived shortcomings in, and potential ways to improve, financial reporting for which the IASB is seeking input from the broader research community.

The **Get started** section (<http://go.ifrs.org/Get-started>) highlights topics and issues that could be of interest to the academic community for developing research activities on IFRS topics. It includes links to papers written by IASB staff in connection with the development of financial reporting requirements.

The **Get involved** section (<http://go.ifrs.org/Get-involved>) provides information about ways to get involved with the research work of the IASB, including the possibility of joining the organisation through its Academic Fellowship programme. This programme aims to attract academics on sabbatical leave and other research professionals who would be on secondment from their primary organisation. There are two different Academic Fellowship programmes: research and education. The Research Fellows are part of the technical staff and are assigned to specific research activities. The IFRS Education Initiative Fellowship programme is designed to attract academics with a stronger focus on teaching.

The **Stay informed** section (<http://go.ifrs.org/Stay-informed>) enables you to keep informed about the research activities of the IASB. It gives access to the IFRS Research Round-up, which is a semi-annual staff summary designed to facilitate communication with the research community about the research projects and activities of the IASB and its staff.

You can subscribe to the Research Centre email alert if you are interested in being kept up to date about new issues in the IFRS Research Round-up and other relevant news from the Research Centre. Register for the Research Centre Alert and manage your alerts at <http://eifrs.ifrs.org/eifrs/ManageEmailAlerts>.



*Alan Teixeira,
Senior Technical Director,
IASB*

Evidence-informed standard-setting

The first, and arguably the most important, step for a standard-setter that is looking at financial reporting issues is defining the problem and deciding whether the matter needs to be, or can be, addressed. To this end the IASB has established a new research phase for making initial assessments of financial reporting matters. It is here that issues, and potential solutions, are evaluated, before the IASB will even consider proposing new financial reporting requirements. The hurdle for a topic to progress from the research programme to the Standards-level programme is high. And the key to overcoming this hurdle is evidence—evidence that a problem exists and evidence that there is a cost-beneficial solution to that problem.

The research programme includes topics such as business combinations under common control, the equity method, discount rates, rate-regulated activities, liabilities and equity, emissions trading schemes and disclosure. We also have some longer-term projects—extractive activities and R&D, post-employment benefits, share-based payments and income taxes.

In the earlier part of a research project the evidential assessment tends to be more of a general overview. We are particularly interested in reviewing, what I call, a ‘body of evidence’, in which a range of studies on related topics are reviewed to provide an overview of a topic. We also look for evidence of divergence in practice and we consider the economic significance of the transactions being reviewed.

If a project progresses further we make more detailed assessments of whether potential changes to our Standards are easily implementable, whether it is probable that they will be applied consistently in practice and, overall, whether they will improve financial reporting. Evidence to support each of these matters is collected from fieldwork and analysis such as testing the proposals with real data, financial modelling simulations, experimental drafting assessments and investor surveys.

It is also important that the analysis, and the reasons the IASB chose a particular approach, are explained to the broader IFRS community. This is the purpose of the Basis for Conclusions that accompanies Exposure Drafts and Standards. In recent years the IASB has given greater emphasis, within the Basis for Conclusions, to providing an explanation of the likely effects of a new Standard. Again, it is here that evidence can help. Readers are more likely to be persuaded of the merits of a Standard by high quality analysis, which is backed by evidence, rather than by unsupported assertions.

Evidence is not just important for major projects. Before the IASB’s interpretation body (the IFRS Interpretations Committee) develops an interpretation, it assesses the extent to which there is diversity in practice. And of course we examine evidence as part of our Post-implementation Review process.

Our need for evidence pervades the standard-setting process.



*April Pitman,
Senior Technical Manager,
IASB*

Using academic research in the standard-setting process: the example of a Post-implementation Review

The IASB uses academic and other research across a broad range of its activities. In 2012 the IASB started its first Post-implementation Review (PIR) on IFRS 8 *Operating Segments*.

A PIR is designed to assess the effect of new requirements on investors, preparers, auditors and regulators—two to three years after the new requirements have become effective. The objective of each PIR is to determine whether the Standard achieved its objectives and, in particular, whether it achieved our overall objective of improving IFRS.

Early in this process we identified that a review of academic research would be a good means of providing unbiased, robust data to help us assess the effects of applying IFRS 8.

Most studies identified in the review were empirical assessments of listed entities, contrasting financial reporting before and after the application of IFRS 8. Many studies contained useful descriptive statistics about the effect on financial reporting of the change to the new Standard, such as the number of reported segments and items that were disclosed. Other studies looked at the relationship between changes in segment reporting and capital market consequences such as information asymmetry, value relevance and changes in the accuracy and dispersion of analysts' forecasts.

This impartial research provided a foundation for the IASB to make an informed assessment about the effect of IFRS 8. However, it also highlighted that, in timing our PIR, we need to balance the immediacy of the preparers' and auditors' responses with the need for a greater data population as a basis for assessment of the Standard by academics and investors. Much of the academic research on IFRS 8 was necessarily preliminary because, in 2012, the Standard had only been effective for two reporting periods.

Now that an academic review has been identified as an essential part of the PIR process, whenever a new Standard is issued, we intend to make it clear which areas are of interest to the IASB and when the PIR is scheduled. This will enable academics interested in undertaking policy-relevant research to more easily identify topics that are also of interest to the IASB. In this way, academic research can be better co-ordinated and integrated with our PIR process in the future.

The academic review for IFRS 8 was undertaken by Ann Tarca when she was with the IASB as an Academic Fellow. Ann's paper, presented to the IASB in January 2013, is available on the **Get started** page of the IFRS Research Centre.

Ann's review also contributed to N Nichols, D Street, and A Tarca, 'The Impact of Segment Reporting Under the IFRS 8 and SFAS 131 Management Approach: A Research Review', *Journal of International Financial Management & Accounting*, 24(3), 261-312. Hence, work that was directly beneficial to the IASB led to a publication in a peer-reviewed journal.

The Feedback Statement for the PIR of IFRS 8 was published in July 2013 (<http://go.ifrs.org/PiR-IFRS-8-Operating-Segments>).



*Peter Clark,
Technical Director, IASB*

The IASB's project to revise its *Conceptual Framework*

The IASB's *Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*') sets out the concepts that underlie financial statements prepared in accordance with IFRS. The IASB has found the *Conceptual Framework* to be a useful tool when developing and revising IFRS, but it could be improved:

- (a) important areas are not covered. For example, the *Conceptual Framework* provides very little guidance on measurement, presentation, disclosure or how to identify a reporting entity.
- (b) the guidance in some areas is unclear. For example, the existing definitions of assets and liabilities could be improved.
- (c) some aspects of the *Conceptual Framework* are out of date and do not reflect the IASB's current thinking. For example, the *Conceptual Framework* states that an asset or a liability should be recognised only if it is probable that there will be a flow of economic resources. However, the IASB has concluded in some situations that recognising an asset or a liability would provide useful information even when a flow of economic resources is not probable.

In 2013 the IASB published a Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*. The deadline for comments on the Discussion Paper was 14 January 2014. The IASB is now working through the comments. It aims to publish an Exposure Draft by late 2014 and to finalise the revised *Conceptual Framework* around the end of 2015.

The home page for the project, <http://go.ifrs.org/Conceptual-Framework>, provides information about the project, including:

- the Discussion Paper;
- all comment letters received, as well as summaries of the comments letters, of feedback from users and of other outreach;
- all papers prepared for meetings of the IASB, as well as summaries of decisions made at those meetings; and
- a facility to sign up for e-alerts.

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Appendix: IASB's research projects

Short and medium term projects—planned milestones	2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Business combinations under common control		B					
Disclosure Initiative							
IAS 1 amendments	ED		B	IFRS			
Reconciliation of liabilities from financing activities			B/ED				
Materiality			B				
Principles of disclosure		B	B	B	B	B	DP
General disclosure review	To be determined						
Discount rates		B					
Emissions trading schemes	To be determined						
Equity method		B					
Financial Instruments with the characteristics of equity		B			DP (linked to the <i>Conceptual Framework</i> ED)		
Foreign currency translation/inflation				B			
Liabilities (Amendments to IAS 37)	Pending developments in the <i>Conceptual Framework</i> project						
Rate-regulated activities		DP					
B = Board discussion DP = Discussion Paper ED = Exposure Draft							