

STAFF PAPER

June 2015

IASB Meeting

Project	Research Programme		
Paper topic	General Update		
CONTACT	Alan Teixeira	ateixeira@ifrs.org	+44 (0)20 7246 6442

This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. The purpose of this session is to give IASB members and external observers a general update on projects in the research programme.
2. There are two papers. This paper provides an overview of some of the main issues and activities relevant to the programme. Paper 8A provides background information on the individual projects.
3. This session is primarily for your information. I do not have any specific questions for the Board, but there will be the opportunity at the meeting for IASB members to raise issues related to the programme.
4. Some of the staff will be available at the session to give brief oral updates on their projects and to answer questions.

Recent developments***Asia-Oceania workshop***

5. In the first week of June we hosted a workshop in the Asia-Oceania office. The workshop was attended by 21 people from 11 different National Standard-setters. We had a core of people in Tokyo, with others joining by video or audio facilities. The workshop had four sessions, three of which focused on projects in the research programme—the equity method, business combinations under common control and

the disclosure initiative.¹ The workshop was designed to be practical. Rather than discussing issues in abstract, we examined how particular accounting changes would affect the financial statements and whether those changes are intuitive and consistent with our *Conceptual Framework*.

6. As well as providing valuable input to these three projects, it was an effective way to involve National Standard-setters and to draw on their expertise. It also demonstrated the value of the Asia-Oceania office.

High inflation

7. In April the IASB decided to suspend its work on high inflation. However, it also decided to ask the Emerging Economies Group (EEG) to assess whether it would be feasible and desirable to develop disclosure requirements for entities suffering from the effects of high inflation in their jurisdiction. The EEG discussed this request at its meeting in Mexico in May.
8. The feedback from the EEG meeting is that some members were very disappointed and frustrated with the IASB's decision, particularly members from South America. Those members have a strong view that, during periods of high inflation, financial statements presented in accordance with IFRS become increasingly irrelevant over that period.
9. Although I have no reservations about the decision to suspend our work on this topic, I do understand the concerns that these jurisdictions have about the effect of high inflation on financial reports. The agenda consultation should provide the IASB with additional feedback on its decision.

IFRS Advisory Council

10. The June meeting of the IFRS Advisory Council included a session on the research programme. At the session, we asked for feedback on the refined classification of the projects (see below). The feedback was generally positive. However, the Advisory Council did caution against using the word 'closed' to describe the status of the

¹ The fourth session was on the *Conceptual Framework* Exposure Draft.

foreign currency and high inflation projects. I have changed the description to ‘suspended/inactive’.

11. In May the IASB decided that it should present the rate regulation project as a standards-level project rather than as part of the research programme. This classification makes it clear that some standards-level activity is planned. The Advisory Council was also asked to review that decision.
12. There was broad support for the reclassification, with nobody objecting or raising concerns.

Project overview, with new classifications

13. It has been clear that a simple split of the projects into short term and long term was not helpful. The summary that follows has a richer classification. It is not intended to be hierarchical, but it is intended to provide more information about the nature of the work and

Projects recently moved to Standards-level activities

These are projects for which the IASB has decided that there is a need to develop a proposal for new or revised accounting requirements. Normally the next step will be an Exposure Draft, but the IASB might decide to issue a Discussion Paper or a Request for Information to help it develop the Exposure Draft.

Rate-regulated activities

Some standards-level activity is inevitable in this project. The form of that standard-setting activity is not yet clear. It will result in either the withdrawal, amendment or replacement of the temporary Standard, IFRS 14 *Regulatory Deferral Accounts*. The IASB has decided that development of a second Discussion Paper would be the fastest way to progress the project.

Development stage projects

These are projects that the IASB has decided warrant further investigation, but for which no decision has yet been made about whether a revised or new IFRS will be required.

Generally, the IASB will have established that there is a financial reporting problem. The main focus will be on assessing whether the IASB can identify a cost-beneficial solution.

The next step is likely to be the development of a Research Paper or Discussion Paper, although the projects could instead be moved to the Standards Programme.

Assessment phase projects

These projects are in the initial assessment phase. Staff are undertaking research to identify and assess practical application issues to understand if there is a financial reporting problem before determining what further action, if any, is needed.

The next step could be the development of a Research or Discussion Paper, or the staff may recommend that the IASB do no further work on the project.

Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

The responses to the Discussion Paper published in April 2014 highlighted that stakeholders have mixed views about how to progress the project. The IASB has tentatively decided to focus initially on the information needs of stakeholders concerning dynamic risk management activities and to prioritise the consideration of interest rate risk before considering other risks at a later stage in the project.

Disclosure Initiative

The Disclosure Initiative is a portfolio of projects being undertaken with the aim of improving the effectiveness of disclosures in financial reporting. The portfolio of projects includes both implementation and research projects.

Financial instruments with the characteristics of equity

The project is exploring improvements to the existing classification requirements of IAS 32 *Financial Instruments: Presentation* to address identified application problems. The next consultative document is likely to be a Discussion Paper.

Business combinations under common control (BCUCC)

Progress on the project is being slowed because of a need to temporarily redeploy the staff member to another project, which pushes the timetable back several months. We have undertaken outreach with the International Technical Partners, user groups and global preparers. We are close to having a cohesive package to take to the Board. The next due process document is likely to be a Discussion Paper. The eventual outcome is likely to be an IFRS on BCUCC or an amendment to IFRS 3 *Business Combinations*. The project relates to a relatively narrow range of transactions for which the problem is well known. The project is one of the topics that was discussed at the standard-setters workshop held at the Asia-Oceania workshop in June.

Equity method of accounting

We have developed a proposal to focus on a narrower-scope project that would address the implementation problems that the IFRS Interpretations Committee decided could not be resolved in a piecemeal way. If we proceed to a short-term project, the next due process document is likely to be a Discussion Paper that explores how we could simplify the current requirements in IAS 28 *Investments in Associates and Joint Ventures* to address current practice issues. The project was one of the topics discussed at the standard-setters workshop held at the Asia-Oceania workshop in June, at which this proposal was explored.

Discount rates

This project is looking at different discount rates used in IFRS and whether there are any inconsistencies that the IASB should address. We may publish an education or research document to help readers understand some aspects of the calculation of net present value in IFRS—such as why different discount rates are used in different Standards and the differences in those rates; or for example explaining how income taxes affect the discount rate and/or estimated cash flows. For any inconsistencies in IFRS requirements resulting from the use of different discount rates, we will assess whether they need to be remedied and the best way of doing so.

Performance reporting

This project has issues that are interlinked with the Disclosure Initiative. We have moved the work that the UK FRC has undertaken on cash flows into the Performance Reporting project. We will publish the FRC research paper towards the middle of the year and use any feedback on that work to help us with performance reporting.

A scope paper will be discussed in June this year setting out how we expect to develop this project.

Pollutant pricing mechanisms

We expect to start considering technical issues in Q2 2015, with the aim of developing a Discussion Paper by the end of the year.

Post-employment benefits (including pensions)

The project is assessing whether we can develop a more general model for schemes that have some features of defined contribution schemes and some features of defined benefit schemes. It has been clearly established that there is a problem. The issue is how to develop a cost-beneficial solution. We expect to have papers to present to the full Board in the second half of 2015.

Provisions, Contingent Liabilities and Contingent Assets

The IASB has not yet decided what the output of this research project will be. The most helpful output might be a Discussion Paper that explains the perceived problems; identifies potential solutions; and invites views on the need for, and scope of, an active project to amend IAS 37. We are updating the IASB on progress in June.

Share-based payments

We are still focused on documenting practice issues. We expect the initial output to be a Research or Discussion Paper, which will contain an overview and analysis of application issues. This would enable stakeholders to consider whether the IASB should do more on this subject.

Exploratory phase—longer-term exploratory thinking projects

These projects are looking at very large financial reporting issues. They lend themselves to assessing whether a fundamentally different approach to the financial reporting issue might be worthwhile.

Extractive activities/Intangible assets/R&D activities

This project is currently inactive. Depending on the feedback received from the 2015 Agenda Consultation, the IASB could give this topic a higher priority and begin an active project. Alternatively, the topic could be removed from the IASB work programme.

Income taxes

This is a thought leadership project. Grace and Mitsuhiro have conducted a survey and taken the issues to CMAC and GPF. The first output will be at a relatively high level. This analysis, and the feedback we receive, should help the IASB assess whether it should embark on a fundamental review of the income taxes Standard or make targeted improvements to the existing requirements.

Post-implementation Review (PIR) follow-up work

These projects have been identified as a consequence of the post-implementation review of IFRS 3 *Business Combinations*. The next step has yet to be determined.

Business (definition of)

This issue was added to the research programme in February 2015. We have yet to assess how we will develop this project.

Goodwill

This issue was added to the research programme in February 2015. We have yet to assess how we will develop this project. We have begun planning and are assessing whether we could develop such a project jointly with the FASB.

Suspended/inactive work²

The IASB has completed its initial assessments on these projects and has no current plans to undertake additional work. The IASB plans to remove these projects from the research programme, subject to feedback in the next agenda consultation.

Foreign currency translation

The initial assessment phase has already been completed. Unless something unexpected comes to our attention, this project is likely to be removed from the research programme.

High Inflation

The initial assessment phase has already been completed. Unless something unexpected comes to our attention, this project is likely to be removed from the research programme. In the interim, the Emerging Economies Group is being asked to assess the adequacy of disclosures when an entity is suffering from high inflation. (See my previous comments in paragraphs 7–9.)

² Some earlier versions of this summary labelled this as *completed work*. As a result of advice from the IFRS Advisory Council I have labelled this as *suspended/inactive work*.