

# STAFF PAPER

September 2015

## IASB Meeting

Project	Research Programme		
Paper topic	General Update		
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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 a general update on projects in the research programme since the last update, provided in the IASB's June 2015 meeting.
2. Each project has a project page on the IFRS.org website, which provides more detailed background information. The project pages can be accessed through the work plan at <http://go.ifrs.org/IASB-Work-Plan>. A summary of each project is included in Appendix 2.

## Timing of research project outputs

3. The intended output of a research project is a Research Paper or Discussion Paper. At this stage, we expect that we may be in a position to produce such a paper for the majority of the research projects in 2016, but in most cases it is too early to make a more precise forecast. Consequently, we have not included such a forecast in this paper.
4. There are 14 active projects on the research programme. We need to manage the timing of outputs carefully to take into account the capacity of respondents to provide input. Consequently, we will need to provide the IASB with more information about the likely timing of Research Papers and Discussion Papers in our next update on the research programme. The likely timing should become clearer for a number of the research projects over the rest of this year.

## Agenda Consultation

5. In August 2015, the IASB published a Request for Views *2015 Agenda Consultation*.<sup>1</sup> The Request for Views includes a summary of the IASB's research programme and invites respondents to comment on the relative importance and urgency of projects.
6. During the drafting of the Request for Views, some changes were made to the categories in which Research projects are classified:
  - (a) Research projects are now classified into one of three categories:
    - (i) Assessment stage—these projects are undertaken to identify and assess practical application issues in order to understand whether there is a financial reporting problem and to consider what further action, if any, is needed.
    - (ii) Development stage—for these projects, the IASB has generally established that there is a financial reporting problem to be addressed and is assessing whether the IASB can identify a solution to the problem and what form that solution is likely to take.
    - (iii) Inactive projects.
  - (b) As reported in the June IASB Update, the projects on the Equity Method and on Business Combinations under Common Control are now classified as development stage, rather than assessment stage.
  - (c) The projects on Definition of a Business and on Goodwill and Impairment arise from the post-implementation review of IFRS 3 *Business Combinations*. They are classified as assessment stage, rather than development stage. This is a change from the tentative decision reported in the June *IASB Update*.
  - (d) In June 2015, two projects were classified as longer-term, exploratory projects, which were described as being intended to assess whether a fundamentally different approach to the financial reporting issue might be

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<sup>1</sup> The Request for Views *2015 Agenda Consultation* is available to download from <http://www.ifrs.org/Current-Projects/IASB-Projects/IASB-agenda-consultation/2015-agenda-consultation/Pages/default.aspx>.

worthwhile. It is no longer considered necessary to identify that as a separate category, and the two projects have been reclassified as follows:

- (i) Income Taxes is now classified as an assessment stage project; and
- (ii) Extractive Activities/ Intangible Assets/ R&D Activities is now classified as an inactive project.

### **Other recent developments**

7. Appendix 1 shows when the research projects were last discussed in IASB meetings and whether they are expected to be discussed again soon. The following paragraphs highlight the most notable outcomes from the recent discussions.

### ***Dynamic Risk Management***

8. In its July 2015 meeting, the IASB decided that the project should remain in the Research Programme.
9. The continuing research project will:
  - (a) focus on identifying the information needs relating to dynamic risk management activities and how they could be addressed through disclosures before considering recognition and measurement. The objective of the project is still to produce a comprehensive solution that would include recognition, measurement and disclosure requirements; and
  - (b) prioritise interest rate risk before considering other risks.

### ***Equity Method***

10. In its June 2015 meeting, the IASB tentatively decided:
  - (a) to limit the scope of the Equity Method project to address application problems arising from the equity method requirements in IAS 28 *Investments in Associates and Joint Ventures*; and

- (b) to consider the need for a wider research project on the equity method after completion of the Post implementation Reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

### ***Primary Financial Statements***

11. In June 2015, the IASB changed the title of the project to ‘Primary Financial Statements’ and tentatively decided that the project should examine the purpose, structure and content of the primary financial statements, including the relationship between the individual statements.
12. The initial approach to this project will involve:
  - (a) reviewing concepts explored in the old Financial Statement Presentation project, to assess which of them merit further investigation;
  - (b) monitoring work currently being done by the FASB in this area;
  - (c) gathering some background information on how entities using IFRS report on their financial performance;
  - (d) looking at some research work being done on cash flow reporting by the UK Financial Reporting Council; and
  - (e) performing informal outreach to identify the gaps and deficiencies in existing requirements and practices.
13. Those steps are likely to take several months.

### ***Provisions, Contingent Liabilities and Contingent Assets***

14. IASB staff have presented their research findings to members of the ASAF and the IASB. The members in each meeting discussed:
  - (a) a range of matters that have been raised as possible problems with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
  - (b) the implications of proposed amendments to the IASB’s *Conceptual Framework*.

15. The IASB is likely to wait until it is close to finalising revisions to the *Conceptual Framework* before making any decisions on whether to start an active project to amend aspects of IAS 37. In the meantime, the staff are continuing to gather evidence about matters that need to be addressed within the scope of such a project.

### **Question for the IASB**

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Do IASB members have any questions or comments about the projects or about the research programme generally?

## Appendix 1: Project discussions

The following table indicates the recent and forthcoming public meetings at which research projects have been or will be discussed. The meeting papers and meeting summaries can be downloaded from the meetings diary on the IASB's website (<http://www.ifrs.org/Meetings/Pages/Meetings-Page.aspx>) or from the individual project pages, which can be accessed through <http://go.ifrs.org/IASB-Work-Plan>.

<b>Research projects</b>	<b>Latest IASB discussions</b>	<b>This month—September</b>	<b>Planned forthcoming discussions—October-November</b>	<b>Comments</b>
<b>Assessment stage</b>				
Definition of a Business	Feb 2015	Agenda Ref. 13	Expected	
Discount Rates	June 2014	Agenda Ref. 15		
Goodwill and Impairment	Feb 2015	Agenda Ref. 13	Expected	
Income Taxes				Expect to discuss late 2015
Pollutant Pricing Mechanisms	June 2015		Expected	
Post-employment Benefits	Sept 2014		Expected	
Primary Financial Statements	June 2015			Work still at early stage
Provisions, Contingent Liabilities and Contingent Assets	July 2015			No further discussion before analysis of responses to <i>Conceptual Framework ED.</i>
Share-based Payment	May 2015		Expected	

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<b>Development stage</b>				
Business Combinations under Common Control			Expected	
Disclosure Initiative—Principles of Disclosure	June 2015	Agenda Ref. 11 and 17	Expected	
Dynamic Risk Management	July 2015			The next step is likely to be a second Discussion Paper.
Equity Method	June 2015		Expected	
Financial Instruments with Characteristics of Equity	July 2015	Agenda Ref 5	Expected	
<b>Inactive projects</b>				
Extractive Activities/Intangible Assets/ R&D	Oct 2010			
Foreign Currency Translation	Oct 2014			
High Inflation	April 2015			

## Appendix 2: Project overview

The following table summarises the IASB research programme as at 31 August 2015.

**Assessment phase projects**—Assessment-stage research projects are undertaken to identify and assess practical application issues in order to understand whether there is a financial reporting problem and to consider what further action, if any, is needed.

Once the assessment stage is complete, the project will typically either move into the development stage, be suspended or be removed from the research programme.

The IASB added the projects on the **Definition of a Business** and on **Goodwill and Impairment** to the research programme in February 2015. The problem identification assessment work for these projects was completed in the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*. The IASB will discuss these projects in September 2015 with the US standard-setter, the Financial Accounting Standards Board (FASB), because the FASB is considering similar issues and because IFRS 3 and the corresponding US requirements are converged.

### Definition of a Business

The accounting treatment for a business combination differs from the accounting treatment for an asset acquisition. The PIR of IFRS 3 identified some challenges in determining whether a transaction is a business combination or an asset acquisition. This research project will consider whether the challenges can be dealt with by clarifying the existing definition of a business or by eliminating the differences between the two accounting treatments.

### Goodwill and Impairment

This research project will consider three specific issues identified in the PIR of IFRS 3:

- (a) whether changes should be made to the existing impairment test for goodwill and other non-current, non-financial assets;
- (b) the extent to which other intangible assets should be separated from goodwill; and
- (c) whether goodwill should be amortised.

### Discount Rates

Different discount rates are used in different Standards. The IASB staff are assessing why those differences exist and their effects. The IASB will consider the results of the research in September 2015.

### **Income Taxes**

The IASB has received feedback that questions the decision-usefulness of some of the information provided by IAS 12 *Income Taxes*. The IASB and the Interpretations Committee have also received many questions about the application of IAS 12.

The IASB staff are currently analysing the results of recent surveys of users of financial statements and other stakeholders. This analysis should help the IASB to assess whether it should embark on a fundamental review of IAS 12, whether it should consider making targeted improvements to the existing requirements or whether it should take no further action. The IASB expects to consider the findings of the research late in 2015.

### **Pollutant Pricing Mechanisms** (formerly Emissions Trading Schemes)

There is significant diversity in how pollutant pricing mechanisms, including emissions trading schemes, are accounted for in practice. The assessment stage is nearing completion. The IASB expects to publish a Discussion Paper in 2016.

### **Post-employment Benefits** (including pensions)

Previous work has established that existing requirements in IAS 19 *Employee Benefits* do not work well for some schemes that have some features of defined contribution schemes and some features of defined benefit schemes. This project is assessing whether a solution can be developed for these hybrid schemes without reconsidering the current accounting for defined benefit and defined contribution schemes. If not, a more fundamental reconsideration may be needed. The IASB expects to consider the next steps for the project late in 2015.

### **Primary Financial Statements** (formerly Performance Reporting)

This project will examine the purpose, structure and content of the primary financial statements. As part of the research project on principles of disclosure, the IASB tentatively decided in March 2015 that primary financial statements are the statements of financial position, profit or loss and other comprehensive income, changes in equity and cash flows. Issues about performance reporting will be included among the issues being considered in this project. The IASB staff are starting to develop a plan for how to progress the project.

### **Provisions, Contingent Liabilities and Contingent Assets**

Concerns have been raised about aspects of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, in particular:

- (a) the requirements for identifying liabilities (and especially how those requirements have been applied for levies and for restructuring costs); and
- (b) diversity in the application of the measurement requirements.

It is unlikely that the IASB will be able to decide whether to start a project to amend IAS 37 and, if so,

which aspects to amend, until it has considered the feedback on the current proposals to revise the *Conceptual Framework*. Agenda Papers 14–14C for the IASB’s meeting in July 2015 summarise the evidence gathered by the IASB staff so far.

### **Share-based Payment**

Many respondents to the 2011–2012 Agenda Consultation commented on the complexity of IFRS 2 *Share-based Payment*, which is evidenced by a number of submissions to the Interpretations Committee. The objective of the research project is to identify the main areas of complexity and their causes. The IASB expects to consider the findings of the research before the end of 2015.

### **Development stage projects**

These are research projects for which the IASB has completed the preliminary assessment and decided that the project warrants further investigation. Generally, the IASB will have established that there is a financial reporting problem to be addressed by the project, but will not yet have decided whether any changes to IFRS are likely to be required.

Thus, the main focus of development-stage projects will be assessing whether the IASB can identify a solution to the financial reporting problem and describing what form that solution is likely to take.

The output from a development-stage project is likely to be the publication of a Discussion Paper.

### **Business combinations under common control (BCUCC)**

Business combinations under common control, including those undertaken when preparing for initial public offerings, are excluded from the scope of IFRS 3, because the combining entities are controlled by the same party. The IASB has observed diversity in practice in accounting for such transactions. The IASB expects to publish a Discussion Paper in 2016.

### **Equity Method**

The equity method is used to account for an investor’s interest in associates, and in some other cases. There has been a high level of submissions to the Interpretations Committee, highlighting the complexities of that method and suggesting the need for a fundamental review of the equity method. In June 2015, the IASB decided to focus on a narrower-scope project to address many of the implementation issues identified by the Interpretations Committee. The IASB expects to publish a Discussion Paper in 2016.

In the longer term, evidence gathered in the development-stage project will provide a basis for a more fundamental assessment of the objective and principles of the equity method.

### **Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging**

There are difficulties in applying existing hedge accounting requirements to portfolios in which exposures change frequently, as new exposures are added and existing exposures mature or are

prepaid ('open portfolios'). A Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* was issued in April 2014. Views received were mixed and further research is being conducted. The next step is likely to be a second Discussion Paper.

### **Disclosure Initiative—Principles of Disclosure**

The Disclosure Initiative is a portfolio of research projects, Standards-level projects and maintenance and implementation projects. The main Disclosure Initiative project within the research programme is on principles of disclosure. The aim is to develop a Disclosure Standard that improves and brings together the principles for determining the basic structure and content of the financial statements, particularly the accompanying disclosure in the notes. The IASB expects to publish a Discussion Paper in early 2016. This work is expected to support a future systematic review of disclosure requirements in Standards.

### **Financial Instruments with Characteristics of Equity**

The classification of financial instruments as liabilities or equity in accordance with IAS 32 *Financial Instruments: Presentation* presents many challenges. The project is exploring whether the existing classification requirements in IAS 32 could be improved. In addition, the project is looking at what improvements could be made to the presentation and disclosure requirements for financial instruments with characteristics of equity. The timing of a Discussion Paper has yet to be determined.

### **Inactive projects**

Inactive projects are projects for which the IASB has no current plans to undertake additional work.

### **Extractive Activities/ Intangible Assets/ R&D Activities**

A project team of national standard-setters from Australia, Canada, Norway and South Africa undertook a research project on extractive activities (such as mining and the extraction of oil or gas). The IASB published the team's findings in April 2010. In October 2010 the IASB considered the comments received and decided not to do any additional work until after the 2011–2012 Agenda Consultation. That consultation highlighted broader concerns about the accounting for research and development activity and the recognition and measurement of intangible assets. These issues have parallels with some issues arising in the extractive activities.

However, in response to the feedback from the 2011–2012 Agenda Consultation, the IASB assigned a low priority to the project. As a result, the IASB has not carried out any further direct research to date and has not received strong demand to do so.

### **Foreign Currency Translation**

In the research project on foreign currency translation, the IASB looked at two sets of issues raised by the Korea Accounting Standards Board (KASB):

- (a) whether the accounting requirements for long-term payables and receivables

- denominated in a foreign currency are appropriate when the currency is volatile and thinly traded; and
- (b) whether a more comprehensive review of IAS 21 is needed to address some other matters raised with the Interpretations Committee and identified through the work of the KASB.

The IASB completed its assessment of these issues in October 2014 and has no current plans to undertake additional work. The IASB plans to remove this project from the research programme, subject to feedback in the current agenda consultation.

### **High Inflation**

In this research project on high inflation, the IASB considered a request made by the Group of Latin American Standard Setters (GLASS) to:

- (a) eliminate or reduce the cumulative inflation rate threshold currently included in IAS 29 *Financial Reporting in Hyperinflationary Economies* to identify when hyperinflation exists; and
- (b) modify the procedures for reporting the adjustments resulting from restating the financial statements.

The IASB completed its assessment of these issues in April 2015 and has no current plans to undertake additional work. The IASB plans to remove this project from the research programme, subject to feedback in the current agenda consultation.