

Opportunities and Challenges for Evidence-Informed Standard Setting and Regulation

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Overview

- Today's session is about the increasing role the academic community can play in standard-setting. Helping us
 - answer difficult questions
 - assess the effects of changes we make to financial reporting requirements
 - Identify diversity in practice
 - Identify information deficiencies
- As people entering the academic world you have a chance to make a real difference

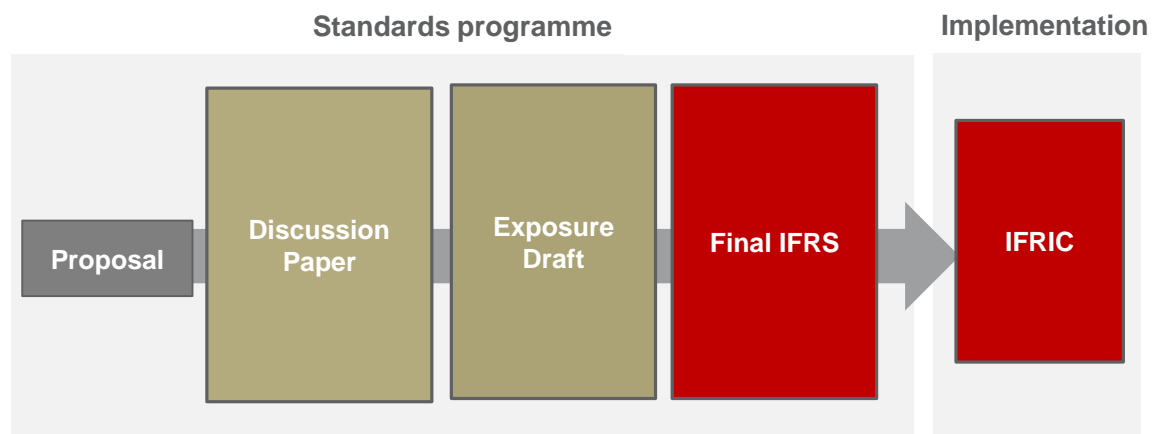
Agenda

- Effective standard-setting
- Evidence-informed Standard-setting
- Academic research

Effective Standard-setting

The standard-setting process

2001 to 2006



Priorities, decisions and timing

- People question why we are even addressing an issue
 - Revenue recognition
 - Consolidations
 - Leases
- Fear that once a project is on the IASB's work programme a new Standard is inevitable
- Projects not being completed
 - Financial Statement Presentation
 - Rate regulated activities
 - IAS 37 – non-contractual liabilities
- Projects running over schedule
 - Revenue recognition
 - Insurance contracts
 - Financial Instruments

Priorities, decisions and timing

- Re-exposure of documents, with major changes
 - Revenue recognition
 - Leases
 - Insurance contracts
 - Non-contractual liabilities
- Endorsement problems, and increased demands from the IFRS community to justify change
- Political interference
 - Leases
 - 3.3 million jobs to be lost ...
 - Fair value
- Failure to agree in joint projects with the FASB

Why are these problems occurring?

- Poor decision making?
- Difficult decisions?
 - Goodwill amortisation
 - Offsetting
 - Impairment
 - Leases
- Bounded rationality – IASB, politicians, users, preparers ...
 - Time
 - Resources
 - Cognitive ability

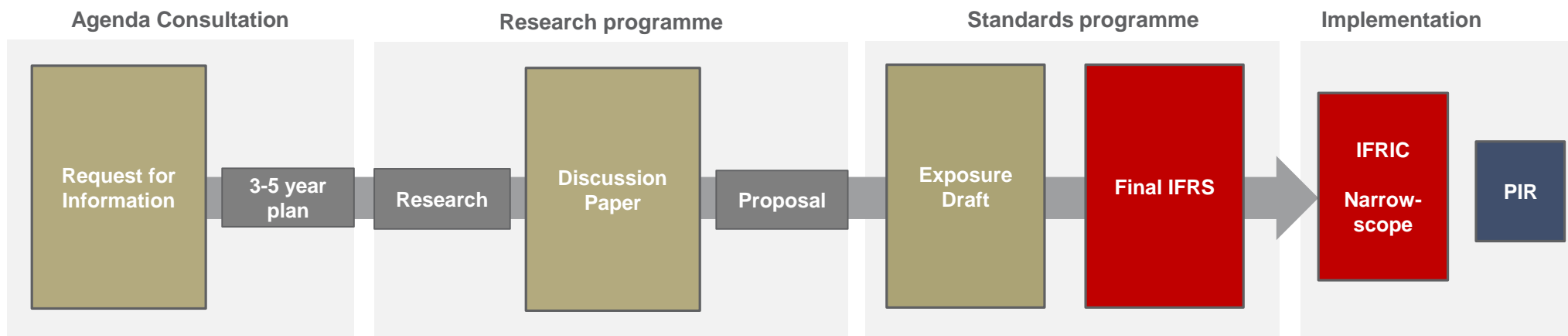
Three legs

- Better problem definition
 - Modified work programme
- Evidence-informed decision making
- Better engagement with research professionals and other accounting standard-setters

The standard-setting process

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Today



- In 2007, Trustees introduced Post Implementation reviews
- In 2011, Trustees introduced the three-yearly public Agenda Consultation
- In 2012, Trustees supported a move to more **evidence-supported decision making**, with more emphasis put on the research phase of the process

Research programme

- A broad research and development programme
 - Low threshold to get onto the programme
 - High threshold to progress further
- Emphasis on defining the problem
 - Identify whether there is a financial reporting matter that justifies an effort by the IASB
 - Evidence based
- The programme is designed to **shorten** the time needed to develop improvements to financial reporting, by:
 - Clarifying the problem up front, before a solution is developed
 - Feeding manageable projects into the Exposure Draft phase on a timely basis (eg the *Disclosure Initiative*)

- Potential issues come from:
 - Agenda consultation
 - IFRS Interpretations Committee
 - On-going outreach

- These are issues people want us to think about

- Projects expected to lead to proposals for new or substantially amended Standards within one or two years
 - Business combinations under common control (BCUCC)
 - Equity method of accounting
 - Rate-regulated activities
- Projects expected to lead to new or substantially amended Standards in the longer term
 - Performance reporting
 - Pollutant pricing mechanisms
 - Post-employment benefits (including pensions)
 - Goodwill
 - Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging
 - Financial instruments with the characteristics of equity

- Projects to identify application issues
 - Discount rates
 - Provisions, Contingent Liabilities and Contingent Assets
 - Share-based payments
 - Definition of a business
 - Longer-term exploratory thinking projects
 - Extractive activities/Intangible assets/R&D activities
 - Income taxes
- Projects not expected to result in standard-setting activity
 - Foreign currency translation
 - High Inflation

Research programme

- Leads to project proposals or immediate standard-setting activity:
 - do more research; or
 - add to the Standards-level programme, or
 - recommendation not to develop an IFRS
- Main consultative document is a Discussion Paper
 - Might also have Staff reports, research papers etc
- The key is:
 - to get timely and helpful input; and
 - to effectively communicate progress and decisions.

- A recommendation to
 - Propose a change to IFRS
 - Put a project on hold, for the time being
 - Resourcing
 - Other factors
 - Stop working on the issue
 - Develop education or support material

Evidence-informed decision making

Why evidence is important

- Provides more objectivity, rather than relying on assertions
- The IASB is increasingly being asked to justify its decisions
 - Leases
 - Revenue
- Effects analysis

Where evidence is helpful

- Identifying financial reporting problems
 - Financial reporting differences
 - Scale
 - Evidence of estimation error
- Assessing solutions
 - Surveys
 - Decision experiments
 - Evidence of how information is incorporated by markets
 - Fieldwork
 - Systems testing
 - Testing draft words
 - Financial statement simulations
- Implementation
 - Evidence of diversity

- IASB initiated work
 - Fieldwork
 - Reviews of financial statements
 - Modelling
- Existing academic and other research
 - Limitations
 - Risks
 - Benefits
 - Examples
- Fostering new research
 - Awareness
 - Research events
- Other accounting standard-setters

International Financial Reporting Standards

Opportunities for you

Doctoral work

- You need to make sure you meet the expectations of your supervisors
- Important that you listen to your supervisor, but also challenge them
- There are research topics that are challenging and academically sound that could benefit policymakers.
- You have an opportunity to make a difference, which can be motivating
- But do not compromise on quality. The research must be sound and well executed.

Good research (Brown 1994)

- A question that is important and interesting to others
- An outcome that is believed to add knowledge or understanding
- Hypotheses that have a solid theoretical foundation
- Models that are rigorous, parsimonious and fruitful
- Care in sample selection and data collection
- Appropriate data analysis and inferences
- Robustness checks
- Intuitive checks on the reasonableness of the findings
- Adequate discussion and valid interpretation of the findings
- Sound appreciation of the study's implications and limitations

We welcome (need) your research

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- We can give you ideas ...
- We have identified issues we are particularly interested in having you work on
- Awareness of work programme and specific issues
 - Topics
 - Timing
- Explanations of when, and how, we use research
- News and events
 - Calls for papers
 - Events
- Interactions and discussions
 - IFRS Research Roundup

We can help reward (acknowledge) your efforts

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- IFRS Research Forum
 - Focused event
 - 2014 event was held in conjunction with *Accounting and Business Research*, at SAID Business School, Oxford 2015 event being held in Asia-Oceania, in conjunction with *Accounting and Finance*, 11 October 2015
 - 2016 event being held in North America, in conjunction with *Contemporary Accounting Research*, October 2016
- Research funds
 - IAAER-KPMG, ICAEW, ICAS etc
- Acknowledgement
 - Bibliographical references, Posting of IASB commissioned work

- It helps if papers are written for a non-academic audience
- Not many research studies are able to address issues as directly as a standard-setter might like
- Timing is important

- A PhD is an important journey
- Each study is designed to test your ability as a researcher
- You must not compromise on quality
- But there is no shame in examining an issue such that one of the beneficiaries is a policy-maker.

