

Tech Q&A

The IASB launched an agenda consultation regarding the strategic direction in developing new accounting standards and setting of priorities for its work programme. Could you provide details of the consultation results?

In December 2012, the International Accounting Standards Board issued a feedback statement on its agenda consultation, which was launched in July 2011. As the number of jurisdictions applying International Financial Reporting Standards increases, stakeholders have identified new accounting issues for consideration by the IASB.

The consultation asked deliberately open-ended questions to gather views on the IASB's future work programme from all those involved with or affected by financial reporting. In particular, the IASB sought feedback on how it should balance the development of financial reporting with the maintenance of IFRSs and – considering time and resource constraints – those areas of financial reporting that should be given the highest priority for further improvement.

In this connection, the feedback statement summarizes how the IASB has addressed those responses received in five key themes:

1. Respondents asked that a decade of almost continuous change in financial reporting should be followed by a period of relative calm, allowing all parties time to adjust to the new standards. (Note that this does not imply a hiatus in standard setting, rather in standard implementation.)
2. There was almost unanimous support for the IASB to prioritize work on the *Conceptual Framework*, which is expected to provide a consistent and practical basis for standard setting. This project focuses on the following five topics on which a discussion paper is expected to be issued in mid-2013:
 - The reporting entity;
 - Presentation;
 - Disclosure;



- Elements (including the definitions of an asset and a liability); and
- Measurement.

How financial performance is presented, including consideration of the role of other comprehensive income and recycling, will be of particular interest.

There have been increasing calls for a review of the disclosure requirements in IFRS. Financial statements are increasingly being perceived as dominated by disclosures that make it difficult to understand how an entity has performed. Although this is sometimes described as disclosure overload, the broader issue concerns the effectiveness of disclosures in financial reports. The framework project will aim to develop disclosure principles to facilitate the development of disclosure requirements in standards.

3. The IASB was asked to make some targeted improvements that respond to the needs of new adopters of IFRSs.

4. The IASB was asked to pay greater attention to the implementation and maintenance of the standards.

In 2007, a formal post-implementation review process was introduced for each new standard or major amendment, which the IASB sees as being an important part of maintaining the standards. The first such review was related to IFRS 8 *Operating Segments*, which was launched in 2012.

Each review will have two phases. In the first phase, the scope of the review is set on the basis of consultation with preparers, users, auditors, securities regulators, standard-setters, other interested parties and the IFRS Advisory Council. This initial consultation phase helps establish the questions to be asked in the public request for information. In the second phase, information is collected, via the request for information, extensive outreach and a review of existing research, to help assess the IFRS being reviewed.

Once the IASB has considered what it has learned from the review, it publishes a report setting out its findings and identifying any actions it plans to take. The formal post-implementation review process supplements the other mechanisms the IASB has in place to review the implementation of standards. The next planned post-implementation review is for IFRS 3 *Business Combinations*. Some preliminary work has been undertaken to help set the scope of the review, but the main part of the process will start once a review has been conducted on how effective the process has been for the IFRS 8 post-implementation review.

5. The IASB was asked to improve the way

the board develops new standards by conducting more rigorous cost-benefit analysis and problem definition earlier on in the standard-setting process.

The IASB will promote a broad research and development programme that will emphasize the defining of problems to be solved in each potential standard-setting project. In this regard, the IASB has identified the following priority research projects that it will explore over the next three years:

- Emission trading schemes;
- Business combinations under common control;
- Discount rates;
- Equity method of accounting;
- Intangible assets, extractive activities and research and development activities;
- Financial instruments with the characteristics of equity;
- Foreign currency translation;
- Non-financial liabilities (amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*); and
- Financial reporting in high inflationary economies.

The research process will include an assessment of whether the IASB should undertake a project to change a standard or develop a new standard when the board might conclude no standards-level project is necessary. With this approach, the IASB, sometimes in conjunction with its network of accounting bodies, will develop research papers or discussion papers as the first step in assessing whether an interested party has identified a potential problem that merits the IASB developing a standards-level solution.

Once the IASB has determined that a project to change a standard is justified, identifying when a project should be added to the work programme to implement a change is a second-order question. The IASB stresses that there is no commitment, implicit or otherwise, in accepting to undertake a research project that would subsequently result in a corresponding standard-setting project.



Send your questions and comments to commentletters@hkiacpa.org.hk. The standard setting team will answer these questions in accordance with its policy, posted on the Institute's website.

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