



Project:	Research Centre	Meeting:	M198
Topic:	Research update	Agenda Item:	9.1
		Date:	28 August 2023
Contact(s):	Eric Lee elee@asb.gov.au	Project Priority:	N/A
		Decision-Making:	N/A
		Project Status:	Report to Board

Objectives of this paper

- 1 The objective of this agenda item is to provide the Board with **updates** on the key AASB Research Centre activities.

Attachments

- Agenda Paper 9.2 [AASB Research Report 19 Common Financial Statement Items: Charities with \\$0.5-\\$3 million in revenue](#) (April 2023) [supporting documents folder]
- Agenda Paper 9.3 [AASB-AUASB Research Report: Australian Listed Entities: Recognised intangible assets and key audit matters](#) (May 2023) [supporting documents folder]
- Agenda Paper 9.4 [AASB Research Centre SSRN Working Paper No. 23-02 Sustainability and Service Performance Disclosure Beyond Institutional Requirements](#) [supporting documents folder]
- Agenda Paper 9.5 Commentary: Climate-Related Risks Disclosures in the Notes to Financial Statements: Descriptive Evidence from Australia [supporting documents folder]
- Agenda Paper 9.6 [AUASB Consultation Paper: Exposure of the IAASB's Proposed ISA 570 \(Revised\), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs](#) [supporting documents folder]
- Agenda Paper 9.7 [AUASB Submission on the IAASB's Proposed International Standard on Auditing ISA 570 \(Revised\), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs](#) [supporting documents folder]

Structure

- 1 This paper is structured as follows:
 - (a) [Background \(paragraphs 2-3\)](#)
 - (b) [AASB Research Reports \(paragraphs 4-19\)](#)
 - (c) [AASB SSRN Working Paper \(paragraphs 20-21\)](#)
 - (d) [Journal publication \(paragraphs 22-23\)](#)

- (e) [AASB Dialogue Series Sessions \(paragraphs 24-29\)](#)
- (f) [AASB Research Forum \(paragraphs 30-31\)](#)
- (g) [Other research project \(paragraphs 32-36\)](#)

Background

- 2 The function of the AASB Research Centre is to enable the AASB to use an evidence-informed approach¹ to achieve its strategic objectives.²
- 3 In the May 2023 meeting, the Board received the latest updates on AASB Research Centre activities.³ This paper covers activities after May 2023. In addition to the research detailed in other relevant agenda papers regarding standard-setting work, this paper provides a summary of significant activities that have recently been concluded or are scheduled to take place in the near future.

AASB Research Reports

AASB Research Report 19 *Common Financial Statement Items: Charities with \$0.5-\$3 million in revenue* (April 2023)

- 4 AASB Research Report 19, titled "[Common Financial Statement Items: Charities with \\$0.5-\\$3 million in revenue](#),"⁴ was published in April 2023. This report identified line items that appear most commonly in Australia's financial statements of not-for-profit (NFP) private sector entities. The findings support the broader [AASB's Not-for-Profit Sector Financial Reporting Framework project](#).⁵

AASB-AUASB Research Report *Australian Listed Entities: Recognised intangible assets and key audit matters* (May 2023)

- 5 A joint research report with the Auditing and Assurance Standards Board, titled "[Australian Listed Entities: Recognised intangible assets and key audit matters](#),"⁶ was published in May 2023. Collaborated with Professor Matthew Pinnuck (The University of Melbourne) and Dr Mark Wallis (The University of Queensland), as part of the AASB's Intangible Assets research project, this report reviewed 2,428 Australian listed entities' financial reports across the 2010 to 2021 period and found that:
 - (a) with the exception of micro-mining entities, the majority of Australian entities recognised some intangible assets on their balance sheets;
 - (b) the level of investment in intangibles for the majority of entities, as a percentage of total assets, is relatively low. However, there are some entities that recognised a significant level of intangibles as a percentage of total assets;
 - (c) there is a wide variety of category descriptions used to present intangible assets, possibly impeding both comparability and precise understanding of the nature of the intangible assets; and
 - (d) intangibles are the most frequent KAM subject matter, suggesting a substantial fraction of auditors' resources are required to assure such information, despite the relatively low level of recognised intangibles.

1 https://www.aasb.gov.au/admin/file/content102/c3/AASB_EISSF.pdf

2 https://aasb.gov.au/media/whbjung0/aasb-auasb_strategy2022-23.pdf

3 https://www.aasb.gov.au/media/uobouvvw/aasbapprovedminutesm195_4may23.pdf

4 https://aasb.gov.au/media/3swkv1k2/rr18_aasb17_03-23.pdf

5 https://aasb.gov.au/media/hpupghgm/ps_afr-nfp_06-23.pdf

6 https://aasb.gov.au/media/kwtd45g0/aasb-auasb_rr_intangiblesbyasxentities_05-23.pdf

- 6 The findings suggest that intangibles play a significant role in the Australian economy. This highlights the need for standard-setters to focus on future efforts to ensure that information about intangibles is sufficiently reported in financial statements, aligning with user needs.
- 7 The findings were also shared with international standard-setters meetings and conferences such as the April 2023 International Forum of Accounting Standard Setters (IFASS) meeting⁷ and the June 2023 [International Conference of the Journal of International Accounting Research](#) at the University of East Anglia, Norwich, United Kingdom.

AASB Research Report XX [draft] *Crypto assets – Australian stakeholders’ perspectives*

- 8 In responding to stakeholders’ concerns regarding reporting requirements for recent developments in digital assets, specifically the subset of digital assets referred to as ‘crypto assets’, the research centre collaborated research with the CPA Australia and Associate Professor Andrew Jackson (University of New South Wales) to gather insights from Australian stakeholders to understand the crypto asset landscape in the Australian market and related concerns.
- 9 Four focus group meetings were held, and 23 individuals from 15 entities (listed, unlisted, professional entities and regulators) were interviewed. The research focused on the following three questions:
- (a) whether crypto assets are widespread in Australia (i.e., prevalence), and if so, which types of crypto assets are commonly utilised by entities;
 - (b) what are the accounting and reporting challenges associated with transactions involving crypto assets; and
 - (c) how should standard-setters address the accounting and reporting of crypto assets?
- 10 Overall, stakeholders are of the view that the crypto market has experienced significant growth in recent years and they commented that it will continue to evolve rapidly. As the market expands, its complexity becomes apparent due to the diverse range of crypto assets.
- 11 Stakeholders expressed concerns regarding the challenges posed by the development of the crypto market and its impact on financial reporting. For example, stakeholders noted that certain related transactions may need accounting guidance from the standard-setters, such as determining the appropriate accounting treatment for transaction fees related to crypto assets.
- 12 Stakeholders have highlighted the importance of continuous oversight of the crypto assets market by standard-setters. There are suggestions that standard-setters should consider providing educational materials or guidance to assist preparers and auditors in navigating the complexities of crypto assets and related transactions.
- 13 The research report will be published in September 2023. Staff will provide the Board recommendation in future meetings to determine the next steps.

Making Materiality Judgements project

- 14 In April 2022, in response to the IASB’s request, the AASB called for an expression of interest to seek academics to research materiality judgements.⁸
- 15 In consultation with the IASB, two proposals were accepted for collaboration:

Projects	Project scope	Project teams
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7 See (Final) Report on the International Forum of Accounting Standards Setters: <https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fFinal%2520Report-19-21%2520April%25202023%2520IFASS%2520Meeting.pdf>

8 <https://www.ifrs.org/news-and-events/news/2022/04/iasb-call-for-research-on-making-materiality-judgements/>

The effectiveness of materiality judgements	By using an experiment, this study investigates the following research question: How can we ensure materiality judgements in financial reporting are an effective proxy for the judgements of financial report users?	<ul style="list-style-type: none"> • Mr Tom Frick • Professor Michael Davern • Associate Professor Brad Potter (All from the University of Melbourne)
IFRS Practice Statement 2 (<i>Making Materiality Judgements</i>): Its meaning and application in practice	By interviewing Malaysian preparers and auditors, the research questions are: <ol style="list-style-type: none"> a) How is the concept of materiality understood by audit practitioners and preparers of financial statements? b) How do audit practitioners and preparers of financial statements apply the concept of materiality? c) What factors (qualitative and contextual) influence the determination of materiality in practice? 	<ul style="list-style-type: none"> • Associate Professor Dr Noor Adwa Sulaiman (Universiti Malaya) • Dr Nahariah Jaffar

16 Research teams are finalising their research reports, with their anticipated publications set for October 2023.

Costs of Capital project

17 In 2022, under the Chair’s direction, a research project on costs of capital was added to the research work program. One of the statutory functions of the AASB is to advance and promote the main objects of Part 12 of the ASIC Act, which include reducing the cost of capital, enabling Australian entities to compete efficiently overseas and maintaining investor confidence in the Australian economy. However, there is a lack of understanding of how the cost of capital can be measured.

18 As such, two research teams⁹ were commissioned to research the topic to provide:

- (a) a literature review;
- (b) an in-depth discussion of the cost of capital and related models; and
- (c) recommendations on models most suitable for the AASB to apply for determining the cost of capital in its standard-setting process.

19 In May 2023, the research teams submitted their reports on time, in line with the agreed timeline. However, due to the changes in priorities within the AASB’s work program, the review process of these reports will be delayed. The expected publication of these reports has been rescheduled to Q4 2023.

AASB SSRN Working Paper

20 The AASB Research Centre has recently accepted and published a working paper titled [Sustainability and Service Performance Disclosure Beyond Institutional Requirements](#) as AASB SSRN Working Paper 23-02 in May 2023.¹⁰ The paper is authored by Pei-Chi Kelly Hsiao (University of Waikato), Mary Low (University of Wikato) and Tom Scott (Auckland University

⁹ The research teams are:

- (a) Associate Professor Andrew Jackson (University of New South Wales) and Professor Marlene Plumlee (University of Utah); and
- (b) Professor Dean Hanlon (RMIT) and Professor Cameron Truong (Monash University).

¹⁰ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4456226

of Technology). The findings from the working paper contribute to the AASB Service Performance Reporting project.

- 21 This paper explores what performance indicators (PIs) Victorian and New Zealand (NZ) public universities disclose and whether reporting practices have been institutionalised by national policies and regulations. From assessing 26,597 PIs disclosed by 17 public universities across 2012 to 2021, the paper finds a greater focus of NZ universities on service performance and compliance PIs to be consistent with national disclosure requirements and higher education strategies. The impact of national strategies on the reporting practices of Victorian universities is less pronounced. Though there is no difference in the level of sustainability PIs disclosed, NZ universities report more on diversity and equal opportunity relative to the focus on environmental performance and occupational health and safety by Victorian universities. While universities adopt a dual accountability logic, they may omit important performance measures, such as research impact, unless otherwise required. The study contributes to the scant literature on public sector non-financial reporting, providing new insights on the state of university sustainability and service performance disclosure, and the influence of institutional requirements on disclosure practices. The findings on the effects of policies and regulations are relevant to standard-setters and regulators and can help advance public sector non-financial reporting practices.

Journal publication

- 22 An article titled *Commentary: Climate-related Risks Disclosures in the Notes to Financial Statements: Descriptive Evidence from Australia* has been accepted and published in the September 2023 Australian Accounting Review.¹¹
- 23 The paper aims to provide background information about the International Accounting Standards Board's Climate-related Risks in the Financial Statements Project. Further, the paper provides some observations of related disclosures in the notes to the 2022 financial statements of the top 75 ASX-listed entities. Overall, the paper finds that there have been improvements in the disclosures and considerations of climate-related risks in the financial statements in recent years. However, the disclosures appear generic, which may not meet the needs of financial statement users. The paper suggests that further research is needed to provide evidence about how such risks are considered and disclosed in the financial statements and whether such information meets user needs. Evidence will help standard setters to consider appropriate action, such as providing educational material or amending the accounting standards, to enhance the quality of financial reporting.

AASB Dialogue Series Sessions

AASB-AUASB Going Concern Disclosures

- 24 A joint session of the [AASB-AUASB Dialogue Series](#),¹² in collaboration with CPA Australia and CA ANZ, was held on 10th May 2023 (Wednesday), from 4 pm to 5:30 pm AEST. The session discussed issues related to going concern disclosures in financial reports and the corresponding responsibilities of auditors.
- 25 Keynote speakers for the session were Associate Professor Brad Potter from the University of Melbourne and Rebecca Mattocks, a PhD candidate from Monash University. The panel discussion featured perspectives from Anne Waters, the Deputy Technical Director of AUASB, and Toby Langley, an AASB member and EGM - Customer and Strategic Finance at Xero. Amir Ghandar, the Reporting and Assurance Leader at CA ANZ will chair the session.

11 <https://onlinelibrary.wiley.com/doi/abs/10.1111/auar.12408?campaign=wolearlyview>

12 <https://www.aasb.gov.au/research-resources/research-centre/aasb-dialogue-series/>

116 individuals attended the session. This initiative aligns with Objective 4 of the AASB strategy objectives.¹³

Special Webinar: Insights and application of normative and empirical research in standard setting and accounting practice

- 26 A special webinar was held on 28th July 2023 (Friday), from 12 pm to 1:30 pm AEST. The session discussed the importance of normative research in standard-setting and accounting practice.
- 27 The panellists were Professor Kathleen Herbohn (University of Queensland), Visiting Associate Professor Bryan Howieson (University of Adelaide) and Dr Keith Kendall (AASB Chair). 34 individuals attended the session.

Upcoming AASB Dialogue Series Session

- 28 The upcoming session of the AASB Dialogue Series, titled '*Navigating the Accounting Standards*', is scheduled for 4th October 2023 (Wednesday), from 4 pm to 5.15 pm AEST.
- 29 The session will feature Associate Professor Janice Loftus (University of Adelaide), who will present preliminary findings from the AASB's project on the Understandability of Accounting Standards. Additionally, the CPA Australia and CA ANZ will also present a guide on understanding accounting standards. Furthermore, Clark Anstis (AASB Technical Principal) will demonstrate the functionality and usability of the new AASB Digital Standards Portal.

AASB Research Forum

2023 AASB Research Forum

- 30 In collaboration with Swinburne University and the University of Queensland, the 2023 AASB Research Forum will be held in Brisbane on 24th November 2023 (Friday). Further, a "satellite event" will also be hosted in Melbourne. Registration will be opening soon.

2024 AASB Research Forum

- 31 Researchers are invited to submit working papers or research proposals for the 2024 AASB Research Forum by 20 October 2023 (Friday). The theme of the 2024 AASB Research Forum is *Accounting and Reporting in Changing Time*.

Other research project

Going Concern Disclosures project

- 32 In June 2022, as part of the 2022-2026 AASB Agenda Consultation, the Board decided to include the going concern disclosures projects in the research work program.¹⁴
- 33 In May 2023, the AUASB issued a [Consultation Paper](https://auasb.gov.au/media/dszcylze/auasb-going-concern-consultation-paper-final-3-may-2023.pdf)¹⁵ to solicit public comments on the International Auditing Assurance Standards Board's (IAASB) Exposure Draft on International Standard on Auditing (ISA) 570 (ED-570).
- 34 As part of the outreach activities, the AUASB conducted roundtables in July and August to gather feedback from stakeholders. On 24th August 2023, after consideration of feedback received, the AUASB submitted its [comment letter](https://auasb.gov.au/media/msahx5pr/ed-570_auasb_submissiontotheiasb_final-b.pdf)¹⁶ in response to the ED-570.
- 35 Among the feedback received, the AUASB noted that stakeholders provided feedback indicating that the reporting requirements in the IFRS Accounting Standards are not sufficiently robust and explicit. This includes:

13 AASB Strategic Objective 4: Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.

14 https://aasb.gov.au/media/n04pqnkz/agendaconsultationfeedbackstatement_08-22.pdf

15 <https://auasb.gov.au/media/dszcylze/auasb-going-concern-consultation-paper-final-3-may-2023.pdf>

16 https://auasb.gov.au/media/msahx5pr/ed-570_auasb_submissiontotheiasb_final-b.pdf

- (a) Going concern assessments should be required to cover a period of at least 12 months from the completion of the financial statements, rather than from the end of the reporting period, as required under paragraph 26 of AASB 101/ IAS 1 *Presentation of Financial Statements*.
- (b) Disclosures about uncertainties and key assumptions that management and those charged with governance have made in forming their conclusions should be required.
- (c) Entities should be mandated to provide a statement on the going concern in the financial statements.
- (d) The term “material uncertainties” should be defined in AASB 101/ IAS 1 and aligned with the definition in ISA 570.¹⁷

36 Staff acknowledge feedback received and will continue closely monitoring the ongoing progress of the IAASB in finalising the revised ISA 570 and any relevant academic research¹⁸ that is being undertaken. If required, staff will provide the Board updates and recommendations in future meetings.

Question to the Board:

Do Board members have any comments or questions about the research update?

17 Paragraph 10 of the ED-570 provides a new definition for the concept of “Material Uncertainty (Related to Going Concern)”. It states:

“An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor’s professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A4–A5)

- (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
- (b) In the case of a compliance framework, the financial statements not to be misleading.”

18 Staff acknowledge the following research paper is relevant and useful to the project: Bradbury, M., Fargher, N., Potter, B. and Taylor, S. (2022), Going Concern Uncertainty: What Do Firms Disclose?. *Australian Accounting Review*, 32: 294-314. <https://doi.org/10.1111/auar.12379>