



Project:	Research Centre	Meeting:	November 2024 (M210)
Topic:	Research and post-implementation review updates	Agenda Item:	9.1
		Date:	15 October 2024
Contact(s):	Eric Lee elee@asab.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, including post-implementation review projects.

Structure

- 1 This paper is structured as follows:
 - (a) [Background \(paragraphs 2\)](#)
 - (b) [Research project\(s\) \(paragraphs 3–12\)](#)
 - (c) [Updates on Post-implementation Review \(PIR\) Project\(s\) \(paragraphs 7–10\)](#)
 - (d) [AASB Dialogues Series Session\(s\) \(paragraphs 13–18\)](#)
 - (e) [AASB SSRN Working Paper\(s\) \(paragraph 19\)](#)
 - (f) [Other activities \(paragraphs 20–21\)](#)

Background

- 2 This paper provides an overview of research and post-implementation review activities that have taken place since the Board received updates in the May 2024 meeting. Alongside the research-related work in other pertinent agenda papers concerning stand-setting work, this paper provides a summary of activities recently completed or scheduled for the near future.

Research project(s)

Statement of Cash Flows and Related Matters

- 3 In September 2024, the IASB started its research project to review and improve the requirements for the statement of cash flows and related matters in IFRS Accounting Standards.
- 4 The AASB Research Centre has also commenced its research project on the statement of cash flows. The research project consists of two stages:

- (a) Stage 1: Data was gathered from top 50 ASX entities annual reports to understand the diversity in practices, focusing on the following five key topics:
 - (i) Direct and indirect methods;
 - (ii) Cash and cash equivalents;
 - (iii) Classification of operating, investing and financing activities;
 - (iv) Voluntary disclosure items; and
 - (v) Free cash flows.

A research report will be published in Q4 2024. The findings were also shared at the September 2024 IFASS meeting.

- (b) Stage 2: Interviews are currently being undertaken, and a research report is expected to be published in Q1 2025.

- 5 It is anticipated that the IASB will define the scope of its statement of cash flows research project in 2025. The findings from the AASB research project will inform and contribute to the scoping process of the IASB.

Intangible Assets: Disclosure and Presentation of Customer Relations

- 6 The AASB Research Centre has conducted a research project focused on a specific component of intangible assets: customer-related intangible assets (CRIA). The project provides an overview of the diverse ways these assets are disclosed, including the terminology used in the notes on intangible assets and in business combinations.
- 7 This research report examines how, and to what extent, the disclosure and recognition of CRIA are reported in financial statements, with a particular focus on the notes to financial statements (NTFS) regarding intangible assets and business combinations among ASX 300 entities.
- 8 The analysis reveals that 33.3% of ASX 300 entities disclose CRIA in their NTFS related to intangibles and business combinations. There is significant variability in how CRIA is reported, both in terms of labelling and amounts, with some entities combining CRIA with other intangible assets, making it difficult to isolate the value of CRIA. Despite these challenges, the findings indicate that CRIA is a notable component of intangible assets for certain entities.
- 9 This research calls for improved disclosures of intangible assets, in line with the AASB Staff Paper on Intangible Assets: *Reducing the Financial Statements Information Gap Through Improved Disclosures*. By focusing on CRIA, this study highlights the complexities of intangible assets and the current lack of comprehensive disclosures.
- 10 The research report is expected to be published in Q4 2024. The findings were also shared at the September 2024 IFASS meeting.

Carbon Offsets Reporting: Australian Perspectives

- 11 The AASB Research Centre has initiated a study focusing on carbon offset reporting practices among the top 300 ASX-listed companies.
- 12 The primary objectives of this research project are to:
- (a) analyse carbon offset reporting practices in annual reports of ASX 300 entities;
 - (b) assess the extent of carbon offset disclosures in financial statements; and
 - (c) evaluate carbon offset information presented in other sections of annual reports.

Updates on Post-implementation Review (PIR) Project(s)

ITC 50 Post-implementation Review – Income of Not-for-Profit Entities

- 13 A Feedback Statement is finalised to conclude the PIR. The Feedback Statement was published on the AASB website in August 2024.

ITC 51 Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements

- 14 Staff has resumed work on ITC 51. Given that the project was delayed over a year ago, staff will revisit and reconfirm the feedback received. Staff have contacted stakeholders who have previously shared feedback to ensure that their views remain unchanged.
- 15 The analysis of the feedback is currently underway. Staff's analysis and recommendations will be presented to the Board in Q1 2025.

AASB Dialogue Series Session(s)

June 2024 AASB Dialogue Series Session

- 16 The June 2024 AASB Dialogue Series, titled '*Valuation in Financial Reporting: Art or Science?*', was held on 27th June 2024 (Thursday), from 4 pm to 5.15 pm AEST. 133 people attended the webinar.
- 17 Professor Michael Davern (University of Melbourne) was the keynote speaker. The panel members were Ian Jedlin (Kroll), Nicolas Konidiallis (IVSC), Richard Steward OAM (PwC), Kulunu Vithanage (BDO) and Anne Waters (AUASB).

Upcoming December 2024 AASB Dialogue Series Session

- 18 The upcoming session of the AASB Dialogue Series, titled '*Disclosure and presentation about carbon offset in the annual reports*', is tentatively scheduled for 3rd December 2024 (Tuesday), from 4 pm to 5.15 pm AEDT.

AASB SSRN Working Paper(s)

- 19 The AASB Research Centre has recently accepted two working papers to the AASB SSRN Working Paper Series:
- (a) 24-04: *Market Reactions to Pronouncements on New Lease Accounting Standard* (authored by Dr Jia Wei, Professor Mark Wilson, Professor Louise Yi and Professor Marvin Wee): This study investigates US stock market reactions to 12 events leading to the promulgation of ASU No. 2016-02, *Leases* (Topic 842). The study investigates the overall market reactions to those events and whether market reactions vary cross-sectionally with firm attributes. The study find no evidence of a significant difference between the stock reactions of firms in different operating lease intensity groups around the new lease accounting standard-setting dates. Findings also show no evidence of a significant difference between the stock reactions of firms in different operating lease precision groups and debt covenant strictness groups around the event dates. These results suggest that investors did not anticipate the new lease accounting standard to significantly impact firms' financial positions, despite the standard aims to increase transparency by bringing operating leases onto the balance sheet.; and
 - (b) 24-05: *Real Effect and Segmen Disclosure Policy: Implications for Investment Decision, Cost of Capital and Firm Value* (authored by: Dr Cynthia Cai, Dr Viet Nga Cao, Professor Greg Clinch and Matthew Sek): This study investigates how disclosure and segment disclosure policies affect a firm's investment decisions, cost of capital, and the excess value of diversification. The paper demonstrates that disclosure introduces "investment risk," influencing investor valuations and management investment decisions simultaneously. In a market that values diversification, this

new risk prompts investors to adjust their portfolios among two interrelated firms, leading to an equal risk-sharing effect between the two entities. However, within a single firm with two divisions, this risk may be offset between the divisions. The study also shows that aggregated disclosure creates additional "informational risk" due to information asymmetry between managers and investors, affecting internal risksharing differently than disaggregated disclosure. When divisional profitability is negatively correlated, investment decisions are more aggressive, leveraging diversification benefits. Furthermore, greater segment disaggregation need not necessarily lead to a lower cost of capital. Instead, when signal quality is sufficiently high, aggregation of information may result in a lower cost of capital. The study also shows the excess value of diversification varies with economic conditions, market characteristics, and disclosure quality, providing new insights into internal capital market dynamics and investment risk management.

Other activities

2024 American Accounting Association (AAA) Annual Meeting

- 20 Jointly with the Canadian Accounting Standards Board, a submission to host a panel session, *What are National Accounting Standard-setters Up to?* at the AAA Annual Meeting in August 2024 was accepted. The session provided insights and perspectives on various key projects that national standards setters are working on. The objective of this initiative is to encourage international academics to consider researching domestic accounting and reporting issues. This also provides opportunities for collaborations between national standard-setters.
- 21 The panel members include Professor Han Yi (Chair of Korean Accounting Standards Board), Yasunobu Kawanishi (Chair of Japan Accounting Standards Board), Katherine Christopoulos (Canadian Accounting Standards Board staff), Dr Ana Simpson (IASB staff) and Dr Eric Lee (AASB staff). The session was moderated by Professor Stephen Taylor (AASB member).

Question to the Board:

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