



CALL FOR PROPOSALS

Research on Defining, Recognizing and Measuring Liabilities *IAAER – KPMG Research Opportunities*

The International Association for Accounting Education and Research (IAAER) and KPMG are pleased to invite research proposals under the Defining, Recognizing and Measuring Liabilities Research Program. The program supports scholarly research directed at informing the IASB's decision process for its project on Liabilities and Equity Distinctions. Up to five research grants of \$25,000 (U.S.) each will be awarded under this program. In addition, as discussed in more detail below, funded projects will be showcased at two events involving representatives from the IASB, as well as renowned accounting researchers. Research teams may publish their findings in the outlet of their choice. The *Journal of Accounting Research* has agreed to provide special "fast-track" reviews for research papers funded under the program that meet its normal standards of publication, and the *Journal of International Financial Management and Accounting* has agreed to offer the option of publication. Funding for this program has been provided by the KPMG Foundation.

Program Objective

The Defining, Recognizing and Measuring Liabilities Research Program promotes and supports research directed at developing theory and evidence to inform the IASB's decision process for its Liabilities and Equity Distinctions project. This joint project with the U.S. FASB is one of several highlighted in the updated Memorandum of Understanding between the two Boards issued in late February 2006. More information on the Liabilities and Equity Distinctions project is available on the IASB's website at www.iasb.org and the FASB's website at www.fasb.org. Information on the two boards' related Conceptual Framework project is also available on their websites.

Program Funding

Up to five research projects will be selected for funding of \$25,000 each. Grant payments will be distributed in three installments and may be applied to cover travel costs associated with attending program events and/or direct costs associated with the research. IAAER invites proposals from research teams domiciled anywhere in the world. Additionally, proposals are encouraged from research teams whose members are from different regions of the world. Research proposals based on empirical-archival, empirical-experimental, or analytical research methods will be considered. Funding decisions will be based on the potential of the research to provide valuable input to the IASB and its national standard setting partners. Members of the Proposal Review Committee will review proposals and make preliminary recommendations to the Program Advisory Committee. Final funding decisions will be made by the Program Advisory Committee.

Research Questions

The objective of this research program is to support scholarly research directed at informing the IASB's decision process for the board's project on Liabilities and Equity Distinctions. To meet this objective, examples of research questions that might be addressed, and examples of motivating questions that might be used as a basis for developing a research question include (but are not limited to):

1. Is the current definition of liabilities in the IASB's *Framework*, or in the FASB's conceptual framework, adequate as a basis for providing decision-useful information? Should financial statements continue to distinguish liabilities from equity? If not, how should income be defined?
2. Not all obligations are liabilities for accounting purposes.
 - a. What characteristics should be used to distinguish *obligations* from *liabilities*?
 - b. Should *economic compulsion* be sufficient to create a liability? Common examples of arrangements with the characteristic of economic compulsion are preferred stock instruments with cumulative dividends (if the issuer does not pay, it is effectively precluded from issuing preferred stock in the future) or, more severely, increasing rate preferred stock instruments (if the instruments are not redeemed, the dividend rate increases exorbitantly).
 - c. Should a *constructive obligation* qualify as a liability? (Constructive obligations are discussed in the FASB's Concepts Statement 6, paragraph 40, IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 10, and the IASB's Exposure Draft of Amendments to IAS 37).
3. The current elements definitions provide explicit definitions for both assets and liabilities but not for equity, which is left as a residual category.
 - a. Should *both* liabilities *and* equity be defined, or should one be defined and the other left as a residual category? If both are defined, should there be scope for items that fail to meet either definition and, thus, fall into a middle category?
 - b. Would definitions of assets and equity, leaving liabilities as the residual category, be a better basis for providing decision-useful information?
 - c. Given the number of arrangements that appear to combine aspects of both liabilities and equity, should there be a new element created for such arrangements? How would such an element be defined and distinguished from both liabilities and equity?
 - d. What characteristics, conceptually, should distinguish liabilities from equity?
4. What is the most relevant measurement attribute for non-financial liabilities that require, or could require, performance on the part of the obligor (examples include warranties and asset retirement obligations)?
5. In measuring liabilities at fair value, should changes in the issuer's own credit standing be included or excluded in fair value remeasurements? If they should be excluded, how should the excluded amount be determined?

6. Some financial instruments are compound, in the sense that they contain characteristics of both liabilities and equity (and sometimes assets). Examples include convertible debt and puttable stock. How should these instruments be accounted for (e.g., classified, measured at inception, and possibly remeasured)?
7. Sometimes separately issued financial instruments can be economically (or otherwise) linked to create an arrangement involving more than one instrument, but having an economic outcome that is similar or identical to the outcome that will occur if the arrangement involved just one instrument. For example, a written put on the issuer's shares can be arranged to have an outcome similar to a convertible debt issuance that is linked to a share repurchase, and straight (nonconvertible) debt can be arranged to have an outcome similar to a convertible debt issuance that is linked to a purchased call option on the issuer's shares. Should separately issued instruments in such arrangements ever be linked together for accounting purposes? If so, what should be the principles (or rules) governing this linkage?

Project Deliverables

Between February 16 and March 1, 2007 contracts will be signed by research teams. Each contract will specify interim milestones, deliverables, and expected delivery dates. Key dates to be agreed to in the contract include:

September 2007 (Date TBA)

- Research designs and interim results will be presented at a by-invitation only one-day IAAER mini-conference in London held immediately before or after the IASB board meeting. The mini-conference will be held in conjunction with the annual meeting of the British Accounting Association's Special Interest Group on International Accounting (IAFSIG) and will represent a collaborative effort with the IAAER and the European Financial Reporting Research Group (Eufin). Representatives of the IASB, as well as renowned researchers, will provide feedback during the mini-conference to assist the research teams in refining their projects. Each research team will submit interim results to the Program Advisory Committee prior to the mini-conference. The first grant installment of \$8,000 will be dispersed to each team following the mini-conference. IAAER will waive the conference registration fee for members of the research teams to attend the joint conference of IAFSIG, Eufin, and IAAER.

August 2008

- Research teams will be invited to present their results at the American Accounting Association (AAA) annual meeting in sessions co-sponsored by the AAA, the AAA's International Accounting Section, and IAAER. IAAER will provide the research team members with lunch tickets to attend the AAA International Accounting Section lunch where the research teams will be recognized. Teams will be required to submit final results to the Program Advisory Committee prior to the AAA Annual Meeting. The second grant installment of \$8,000 will be dispersed to each team following the AAA meeting.

October 2008

- Final results will be presented at a mini-conference in Norwalk held immediately before or after the joint meeting of the IASB and FASB. The final deliverables will focus on highlighting the significance of the findings to standard setters. Representatives of the IASB and FASB will be in attendance. The third grant installment of \$9,000 will be dispersed to each team following the mini-conference.

Research Proposal Format

Research proposals should be concise and not exceed 10 pages (1.5 spacing and 12 font). All proposals should be in English. Proposals should contain the following information:

- Clear and concise definitions and description of the:
 1. Research question
 2. Research objectives
 3. Research method to be employed
- Description of the proposed research activities
- References to leading studies on the topic (attach a reference list not exceeding two pages)
- Indication of how the proposed research will inform the IASB decision process in regard to its Liabilities and Equity Distinctions project

Each proposal should additionally:

- Designate a Principal Investigator who will have primary contractual responsibility for the research project
- Include a curriculum vitae for each member of the research team

Publication of Research Findings

Research teams may publish their findings in the outlet of their choice. The *Journal of Accounting Research* will offer a fast track review option, and the *Journal of International Financial Management and Accounting* will offer the option of publication.

DRML Program Advisory Committee

Members of the RFP Program Advisory Committee include:

Mary E. Barth
IASB Board Member and
Joan E. Horngren Professor of Accounting
Stanford University

Katherine Schipper
FASB Board Member

Timothy B. Bell
Director, Assurance Research,
KPMG International Audit and
Advisory Services Center

Donna L. Street, Program Coordinator
IAAER Vice President Research and
Mahrt Chair in Accounting
University of Dayton

Submission Deadline

The proposal submission deadline for the Defining, Recognizing and Measuring Liabilities Research Program is **December 15, 2006**. Funding decisions will be announced as soon as the evaluation process is complete, but no later than **February 16, 2007**.

All proposals are to be submitted electronically to the Defining, Recognizing and Measuring Liabilities Research Program Program Coordinator, at the following email address:

donna.street@notes.udayton.edu.

Proposal text and supporting materials should be in a single electronic file in either Word or PDF format.

Questions about the program or proposal process should be directed to Donna Street at donna.street@notes.udayton.edu.