

Project

Post-Implementation Reviews

Topic

The IASB's post-implementation reviews

A similar version of this paper was discussed in the IFRS Advisory Council Meeting on 21-22 February 2011. The paper distributed to the IFRS Advisory Council meeting was also distributed to the IFRS Interpretations Committee members via email on 11 February 2011.

Introduction

1. We are seeking advice on a draft general work plan for a post-implementation review, which is discussed in Agenda paper 10A.
2. We plan to seek feedback in the next few months on the draft general work plan, as discussed in agenda paper 10A, from the IFRS Advisory Council, a meeting of a group of national standard-setters, the IASB's Global Preparers Forum and Analyst Representative Group. We intend to bring the feedback received on the draft general work plan for a post-implementation review to a Board meeting in the second quarter of 2011. Both papers tabled at this meeting reflect only the views of the authors and have yet to be considered by the Board. (The authors have been developing those views in part by discussing ideas with a small group of Board members.)
3. This paper is provided for information purposes and provides background to the discussion on the draft general work plan in Agenda paper 10A. This paper provides an overview of the IASB's post-implementation review process, specifically on the:
 - (a) objectives;

This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee Meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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- (b) scope;
- (c) timing; and
- (d) assignment of who is to conduct that review.

Background

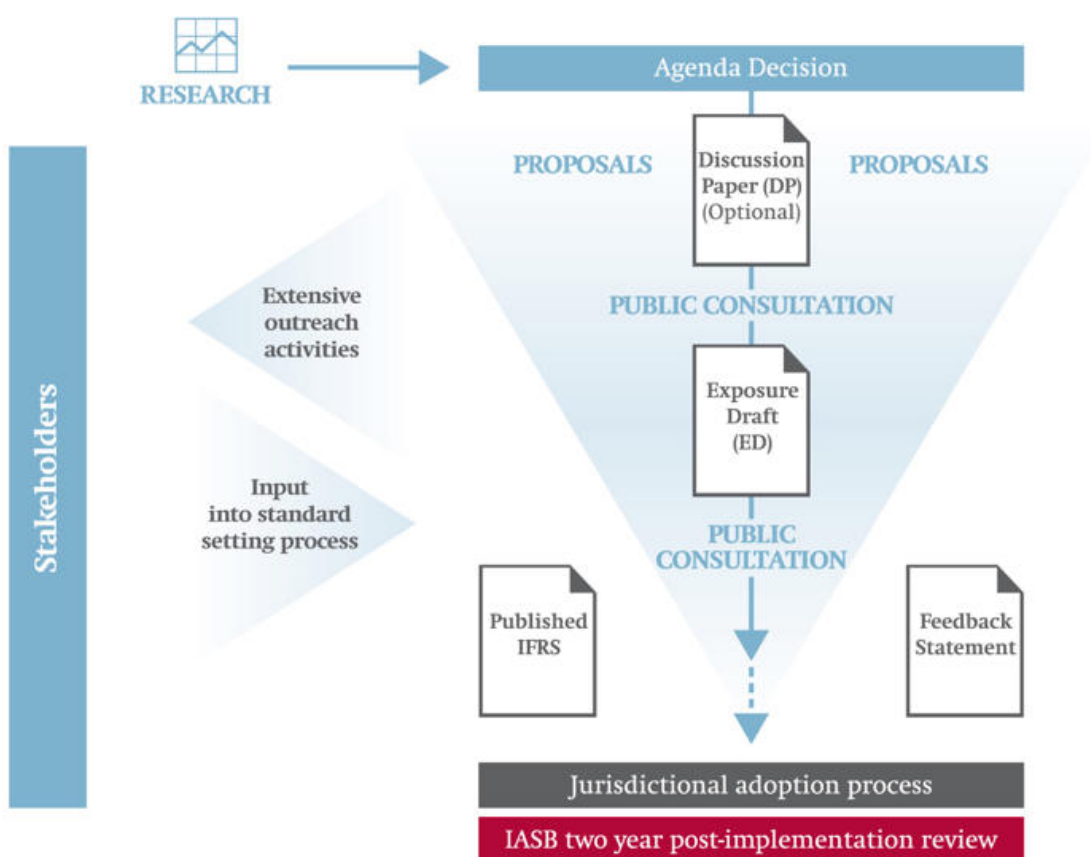
The IASB's Due Process requirements

4. The objectives, scope, timing of, and assigned responsibility for, a post-implementation review are set out in the *Due Process Handbook for the International Accounting Standards Board* (the Handbook) paragraph 53 (reproduced in Appendix A).
5. The *Handbook*:
 - (a) describes the Board's consultative arrangements;
 - (b) is based on the Framework of due process laid out in the Constitution of the IFRS Foundation; and
 - (c) reflects public consultation.
6. The Trustees approved the amended the *Handbook* on 9 October 2008. The Trustees' Due Process Oversight Committee is responsible for regularly reviewing and, if necessary, amending those due process procedures in the light of experience and of comments from the IASB and constituents.¹ One of the 2008 amendments to the *Handbook* was to formalise the process of conducting post-implementation reviews as part of the life cycle for the Board's major projects.
7. Prior to 2008 the IASB's due process requirements in the Handbook included informal processes for understanding how an IFRS is implemented or the impact of an IFRS. Those processes allowed the IASB to initiate studies, in light of certain circumstances, after an IFRS has been issued.

¹ The Trustees' Due Process Oversight Committee is conducting a benchmarking exercise to assess the effectiveness of the organisation's due process activities. This exercise is estimated to be completed by the end of 2011.

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8. When IFRS 8 *Operating Segments* was issued in November 2006, the IASB committed itself to undertaking a post-implementation review of that IFRS. The Board did so in response to concerns raised on the application of the management approach in IFRS 8.
9. The 2008 amendment to the *Handbook* formalised post-implementation reviews as part of the life cycle of a project. The diagram below illustrates a project's life cycle.



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Objectives

10. A post-implementation review's objectives, according to the *Handbook*, are:
 - (a) to review the important issues that had been identified as contentious during the development of the pronouncement²; and
 - (b) to consider any unexpected costs or implementation problems that have been encountered.
11. For the first objective, a post-implementation review provides for a review of:
 - (a) how the Board responded to those contentious issues;
 - (b) the implementation consequences of how the Board finalised those contentious issues; and
 - (c) the bases of the Board's decisions when deciding on a contentious issue and consideration of whether those bases remain valid.

The reasoning used by the Board in reaching conclusions on contentious matters when finalising a pronouncement may have been based on certain expectations. For example, the Board may decide that a specific requirement is appropriate because the concerns raised might have been thought to relate to transactions that, although significant in size, were expected to be rare. Understanding this reasoning will be relevant for assessing the continuing validity of the bases for those decisions.

12. On the second objective, the review will provide a specific opportunity for the Board to learn about and consider any unexpected costs or implementation problems that have been encountered. The Board already has mechanisms to consider individual implementation problems through its interpretative and annual improvements processes. The post-implementation review process embeds a broader review of the implementation problems arising, compared

² We think that a contentious issue in this context is an aspect of a proposal:

- that elicited a wide range of views from those that responded to the exposure draft with no clear consensus; or
- that many disagreed with but which the Board proceeded with.

How the Board responded to contentious issues arising in the development of a pronouncement is normally described in the basis for conclusions to an IFRS and the feedback statement.

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with the narrower, discrete review associated with Board's other implementation processes. A by-product of a post-implementation review may be the referral of items to the Interpretations Committee or the development of an agenda proposal, to for example, amend an IFRS.

13. Both objectives reflect the fact that the post-implementation review is part of the project life cycle and is conducted by the Board. The next section elaborates upon the scope, timing and responsibility for a post-implementation review.

Scope and timing for a post-implementation review

14. According to the *Handbook*, a post-implementation review should normally be conducted two years after the new requirements have been implemented (see Appendix A). This allows a study of the implementation of the IFRS in a 'business as usual' context without being clouded by issues specific to the year of change. However, the following circumstances may prompt an earlier review:
 - (a) changes in the financial reporting environment or in regulatory requirements; or
 - (b) comments received about the quality of a specific IFRS.
15. According to the *Handbook*, a post-implementation review is part of a project's life cycle and is carried out for each new IFRS or major amendment. Implementation issues arising from narrower-scope amendments (ie amendments that are not major) are by their nature likely to be narrower in scope and therefore to be more suitable for being handled through other parts of the IASB's implementation activities, such as IFRIC interpretations and annual improvements. It is the more significant, broader projects, ie the new IFRSs and major amendments, that will need the broader approach that a post-implementation review can bring.

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Schedule for and subject of post-implementation reviews

16. The first two IFRSs or amendments for which the IASB is scheduled to begin post-implementation reviews are IFRS 8 and Business Combinations: Phase II (the revised IFRS 3 *Business Combinations* and the amended IAS 27 *Consolidated and Separate Financial Statements*).
17. It is noted above that the performance of post-implementation reviews was included in the IASB's due process procedures following the commitments that the Board gave to review IFRS 8. We think that focusing post-implementation reviews on new IFRSs and major amendments that are issued after this date, rather than on older standards, is a more efficient use of both the Board's and constituents' resources. Several of the older standards are currently subject to revision or replacement by main Board projects. The new IFRSs or major amendments that are issued following completion of these projects (for example IFRS 9 *Financial Instruments*) will be the subject of post-implementation reviews after two years of implementation. Those that are not scheduled for revision or replacement, but with which there are implementation issues (for example IFRS 2 *Share-based Payment*), are expected to feature in the responses to the Board's consultation on the future agenda. We think that undertaking a post-implementation review is of greatest benefit within a few years of the pronouncement becoming effective, and that the agenda consultation will provide a more efficient way of learning about implementation problems with older standards, and a more direct route to developing an agenda proposal, where applicable.

The timing of the first reviews

18. The first two IFRSs or amendments for which the IASB is scheduled to begin post-implementation reviews are IFRS 8 and Business Combinations: Phase II.
19. The effective dates for IFRS 8 and Business Combinations: Phase II are as follows:
 - (a) IFRS 8: annual periods beginning on or after 1 January 2009.

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- (b) Business combinations: Phase II: annual periods beginning on or after 1 July 2009.
- 20. The first sets of financial statements in which IFRS 8 will have been applied for two years will be those for the year ended 31 December 2010, and are likely to become available from March 2011. However, there are many entities preparing IFRS financial statements that have reporting dates other than 31 December. This is particularly the case in the southern hemisphere where June reporting dates are common. The broadest geographical population of financial statements and implementation experience with at least two years of application since IFRS 8 was issued will be available from the second half of 2011.
- 21. A similar analysis would suggest that the broadest geographical population of IFRS financial statements and implementation experience since Business Combinations: Phase II was issued will be available from March 2012.
- 22. Accordingly, the reviews for IFRS 8 and Business Combinations: Phase II are expected to start in 2011 and 2012 respectively.
- 23. From then on, a post-implementation review of an eligible pronouncement will be added to the agenda after the appropriate application period. A pronouncement will be subject to review only once. Any additional reviews of the same pronouncement are unlikely to be an efficient use of resources. If implementation issues arise after a post-implementation review, it may be better to address the issues by developing an agenda proposal. If this leads to a major amendment to the IFRS, then the amendment would itself be subject to a post-implementation review after an implementation period of two years.

Responsibility for the review

- 24. As set out in the *Handbook*, a post-implementation review is conducted by the Board. This is consistent with the view that a post-implementation review:
 - (a) is part of a project's life cycle and the objectives of the review appropriately reflect this; and

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- (b) considers technical issues, and our Constitution places responsibility for technical issues on the Board.

25. Consistent with the Board's principles of operating, which involves transparency, objectivity and extensive consultation, the post-implementation review will be conducted as follows:

- (a) staff (including senior staff) allocated to the review must not have been involved in the development of that pronouncement;
- (b) information will be available on our website regarding the review;
- (c) the results of the review will be discussed in the Board's public meetings;
- (d) the Board will invite public comment on a draft report of the findings, thereby subjecting the Board's findings to public scrutiny before finalisation; and
- (e) the finalised report will be available to the public.

Agenda paper 10A discusses this further in its discussion on the draft general work plan for a post-implementation review.

Summary

26. In summary, a post-implementation review, as set out in the *Handbook*:

- (a) focuses on:
 - (i) a review of the important issues that had been identified as contentious at the time of developing the pronouncement; and
 - (ii) consideration of any unexpected costs or implementation problems that have been encountered;
- (b) is performed for new IFRSs and major amendments;
- (c) is normally performed after two years of implementation unless circumstances arise that indicate that an earlier review should be conducted; and

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(d) is conducted by the Board.

27. The reviews for IFRS 8 and Business Combinations: Phase II will commence in 2011 and 2012, respectively.

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Appendix A: Paragraph 53 of the *Due Process Handbook for the International Accounting Standards Board* (amended October 2008 and updated December 2010)

53 The IASB carries out a post-implementation review of each new IFRS or major amendment. This is normally carried out two years after the new requirements have become mandatory and been implemented. Such reviews are normally limited to important issues identified as contentious during the development of the pronouncement and consideration of any unexpected costs or implementation problems encountered. A review may also be prompted by:

- changes in the financial reporting environment and regulatory requirements
- comments made by the IFRS Advisory Council, the IFRS Interpretations Committee, standard-setters and constituents about the quality of the IFRS.

The review may lead to items being added to the IASB's agenda. The IASB may also continue informal consultations throughout the implementation of the IFRS or amendment.