

**Memorandum**

**To:** Trustees / Trustees Due Process Oversight Committee

**From:** Michael Stewart  
*IASB Director of Implementation Activities*

**Date:** 22 March 2011

**Re:** Post-implementation review planning – Progress report

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**Objective**

1. This paper provides:
  - (a) an overview of the Board's plan for developing a framework for conducting post-implementation reviews; and
  - (b) invites comments from the Trustees.

**Background**

2. The IASB is committed to performing post-implementation reviews of all new IFRSs and major amendments. The Board first gave such a commitment when it issued IFRS 8 *Operating Segments* in November 2006.
3. The commitment to undertake such reviews was incorporated into the *Due Process Handbook for the International Accounting Standards Board* (the Handbook) in October 2008. This amendment to the Handbook established post-implementation reviews as part of the life cycle of the Board's standard-setting process. It sets out the requirements, including the scope and timing of post-implementation reviews. An extract of the relevant paragraph for the Handbook (paragraph 53) is included in Appendix A.
4. The Handbook establishes that a post-implementation review is normally carried out two years after the new requirements have become mandatory and have been implemented. IFRS 8, the first standard for which the Board gave a commitment

to review, was applicable for annual periods beginning on or after 1 January 2009. The first financial statements to include a second year of application of IFRS 8 will be those for the year ending 31 December 2010. Allowing for different financial year ends for different entities, financial statements that include a second year of application of IFRS 8 will become available over the course of 2011.

### **Developing a framework for conducting post-implementation reviews**

5. The Handbook sets out the main requirements for a post-implementation review. The Board is currently developing a framework approach that can be applied to meet the Handbook requirements. The intention is that the framework will be applied to develop a tailored approach for each IFRS that is reviewed.
6. This paper provides an update to the Trustees on the steps being taken to develop the framework and invites comments. A copy of the draft framework developed so far is included in Appendix B.

### **Outreach**

7. During February and March, we have been seeking views on our proposed draft framework from the IFRS Advisory Council, the IFRS Interpretations Committee, the Analyst Representative Group, Global Preparers Forum, and national standard-setters<sup>1</sup>. As part of the outreach we have also been asking for views on the involvement of local organisations, such as the national standard-setters, in the post-implementation review process.
8. We propose to bring the results of this outreach and a revised draft framework for post-implementation reviews to the Board for discussion in the next few months.

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<sup>1</sup> At the time of writing this paper, the meeting with the national standard-setters is yet to take place; scheduled for 24-25 March 2011.

## ***Feedback received so far***

### *Objective of a post-implementation review*

9. The IASB Due Process Handbook describes post-implementation reviews as being limited to:
  - (a) a review of the important issues that had been identified as contentious during the development of the pronouncement; and
  - (b) and consideration of any unexpected costs or implementation problems that have been encountered.
10. Some have questioned the proposed breadth of our post-implementation reviews. They would prefer to see a broader objective, for example a study on whether the standard is achieving its stated objective. Such a broadening of the review could result in a full re-opening and reconsideration of the standard.
11. The original intent of conducting post-implementation reviews was to identify if there are aspects of a standard that are not working as expected so that, if necessary, remedial action could be proposed to address the concerns. This original objective is one that can be achieved efficiently.
12. The framework being developed for post-implementation reviews will meet the requirements of the Due Process Handbook as a minimum, and likely go further. As part of our development of the draft framework we will consider how we might modify the objective of the review to better describe the work that we are planning to undertake.

### *Independence of the IASB*

13. The other common message we have heard from the outreach so far is the question of whether the IASB should undertake the post-implementation reviews of its own standards, or whether an independent group should perform them. In the US, the Financial Accounting Foundation (FAF) has taken on the role of performing post-implementation reviews of the FASB's standards.
14. Although some of the feedback we have received supported using an independent group, others expressed strong support for the IASB approach. We see the performance of post-implementation reviews as a completion of the life-

cycle of the development of an IFRS, rather than as an audit of the IASB's processes.

15. We think that the Due Process Oversight Committee's oversight of the IASB's work in this area, in addition to the transparent way in which the reviews will be conducted, will provide sufficient reassurance to those who have expressed concerns over independence.

### **Next steps**

16. The last of the planned outreach meetings takes place with the group of National Standard-Setters on 24-25 March. The feedback received from this and the other meetings held will be used to revise the draft framework. This will be discussed by the IASB in a public meeting over the next couple of months, and details of the planned approach published thereafter.

### **Questions**

17. Do the Trustees have any questions or comments on the process being followed or on the draft framework included in Appendix B?

**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.

## Appendix B: Draft framework for post-implementation reviews

### Introduction

- B1. A post-implementation review, as set out in the *Due Process Handbook for the International Accounting Standards Board* (amended October 2008):
- (a) is part of the IASB project's life cycle and is carried out for each new IFRS or major amendment;<sup>2</sup>and
  - (b) is normally carried out two years after the new requirements become mandatory and have been implemented. However, the following circumstances may prompt an earlier review:
    - (i) changes in the financial reporting environment or in the regulatory requirements, or both; or
    - (ii) comments received about the quality of a specific IFRS.

### Objectives

- B2. As set out in the *Due Process Handbook for the International Accounting Standards Board* (amended October 2008), a post-implementation review's objective is:
- (a) to reassess the important issues that were identified as contentious during the development of the pronouncement; and
  - (b) to consider any unexpected costs or implementation problems that have been encountered.

### General work plan

- B3. The general work plan for a post-implementation review is as follows:

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<sup>2</sup> Post-implementation reviews for two projects will be starting when sufficient implementation time has elapsed. They are:

- (a) IFRS 8 *Operating Segments*, to start in 2011; and
- (b) Business Combinations Phase II (revised IFRS 3 and amended IAS 27), to start in 2012.

- (a) Publish information about the post-implementation review on the IASB's website.
- (b) Identify significant contentious issues that arose in the development of the pronouncement (and, where available, identify what the Board expected on application of the requirement) from analysing the relevant effects analysis, feedback statement, basis for conclusions and dissenting opinions, if any (as appropriate).
- (c) Information is gathered through (in no particular order):
  - (i) analysing relevant published reports, surveys and research;
  - (ii) consultation with users, preparers, auditors, regulators, standard-setters and other interested parties;
  - (iii) when relevant, consulting working groups, the IFRS Advisory Council and the IFRS Interpretations Committee; and
  - (iv) requesting the help of local organisations (for example standard-setters) in identifying those issues in their jurisdictions.
- (d) Using the information gathered:
  - (i) when a contentious issue had arisen in the development of a pronouncement;
    - (a) review how the requirements of the pronouncement relating to that issue are applied in practice, from the perspective of all those involved in the financial reporting supply chain (for example, preparers, auditors, users and regulators);
    - (b) assess the results of this review to determine whether the original concerns remain valid; and
  - (ii) identify whether any unexpected costs or implementation problems were encountered.
- (e) Develop a preliminary report on the results of the review. The preliminary findings will be discussed during a Board meeting, or meetings.
- (f) Publish the preliminary report on the results of the review and formally invite comments on the report for an appropriate comment period.

- (g) Finalise and issue the report after considering the comments received on the preliminary report during Board meetings.
- (h) In finalising the report, the Board will consider what further work is required, for example whether an agenda proposal should be developed in response to the matters identified, or whether some of the matters arising from the review should be referred to the IFRS Interpretations Committee for consideration as part of annual improvements.