



# Due Process Oversight Committee

IFRS Foundation Trustees

13 October 2011

Agenda paper 3B

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## Memorandum

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

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

**Date:** 30 September 2011

**Re:** Post-implementation review planning – Revised draft approach

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## Objective

1. This paper provides an update of the Board's work in developing its plan for post-implementation reviews.

## Background

2. The IASB has been developing its approach to post-implementation reviews over the course of this year. A draft approach to post-implementation reviews was presented to the Trustees in March, and an update on the process was given in July. Since then we have continued to develop the approach, and in September we sought feedback on the revised approach from the World Standard-Setters group. The outcome of this work is presented in the Appendix to this paper.
3. The first post-implementation review will be a review of IFRS 8 *Operating Segments*, which is scheduled to commence towards the end of the year.

## Main revisions

4. The main revisions made to the approach since March in response to the feedback have been the following:
  - (a) Objectives: Many stakeholders with whom we consulted told us that they wanted us to consider the effectiveness of the IFRS, that is, have we achieved what we intended to achieve by developing the IFRS? Although this objective goes beyond what we are required to do by the Due Process Handbook, we have decided to include this objective in the first post-implementation review. At the end of the review, we plan to assess this part of the review to consider whether, and to what extent, this should become part of our standard approach to post-implementation reviews.
  - (b) Three-phase approach: We have given more structure to the post-implementation review approach by identifying three phases and describing the objective of each phase:
    - (i) Phase 1: Developing the work plan – The objective of this phase is to identify the issues on which to focus the review and to develop the work plan to research those issues
    - (ii) Phase 2: Investigating the issues – The objective of this phase is to gather and analyse evidence supporting the concerns raised by stakeholders that establishes the extent and nature of the issues and to propose solutions to address the issues that were identified
    - (iii) Phase 3: Reporting – The objective of this phase is to set out our response to the issues analysed in the review
  - (c) Public outreach and consultation: We have set out in our approach to post-implementation reviews, the points in the process at which there is public consultation and feedback. We will:
    - (i) consult on the issues that should be included in the review
    - (ii) publish our scope and work programme for the review

- (iii) publish, for comment, the preliminary findings from the review
  - (iv) publish our final report of our findings, including proposed responses
- 5. One further feedback comment we received was regarding the timing of the post-implementation reviews. The Due Process Handbook sets out that the reviews will normally take place after two years of implementation of the IFRS. Some of the feedback we received suggested that this might be too soon; the concern raised was that it might be better to allow more time for the effects of the new requirements of an IFRS to be understood. This may be the case, for example, when the changes introduced by an IFRS are extensive and/or complex. We therefore plan to consider feedback from the IFRS Advisory Council, the IFRS Interpretations Committee and our constituents in deciding whether to proceed with a post-implementation review after two years, or to allow more time for its effects to be understood.

## **Next steps**

- 6. We plan for the Board to discuss the revised approach in its November Board meeting and to request confirmation of the approach. We plan to start our first post-implementation review, of IFRS 8, in December.
- 7. After the IFRS 8 review, in consultation with the Due Process Oversight Committee, we will reflect on the post-implementation review process and consider what improvements we might make for future reviews.

## **Questions**

- 8. Do the Trustees have any questions or comments on this update and the revised approach?
- 9. Do the Trustees agree that for we should consider the timing of each review in the light of feedback from the IFRS Advisory Council, the IFRS Interpretations Committee and our constituents, as described in paragraph 5 above?

## **Appendix: Proposed approach for post-implementation reviews**

### *Introduction*

We, the International Accounting Standards Board (the Board), undertake post-implementation reviews to learn whether there are significant concerns about the implementation of an IFRS in practice and, if there are, to consider how we might respond to those concerns. The reviews are also intended to help us to identify whether and how we might make improvements to the way in which we develop IFRSs. Post-implementation reviews represent the final stage in our standard-setting process.

### *Objectives*

Our reviews focus on the outcome or status of issues that were identified as contentious at the time of developing the IFRS. This will help us understand whether these concerns remain and what lessons we can learn to help us with developing future IFRSs. The reviews also consider how straight-forward it has been to apply the IFRS by asking whether there have been significant implementation difficulties or significant unexpected costs associated with applying the IFRS.

In developing our approach to post-implementation reviews, many stakeholders told us that they wanted us to consider the effectiveness of the IFRS; that is, have we achieved what we intended to achieve by developing the IFRS? Although the primary focus of our post-implementation reviews is on the practical application of the standard, the relevance of the information it produces is of course important. As part of our first review, which will be of IFRS 8 *Operating Segments*, we will, to the extent possible, consider the effectiveness of the IFRS by seeking feedback, particularly from users of financial statements, about the usefulness of the information provided from applying the IFRS. At the end of the first post-implementation review we will assess this element of the review to consider whether, and to what extent, this should become part of our standard approach to post-implementation reviews.

### *Timing*

Our reviews normally take place after two years of implementation of the IFRS. This timing may be accelerated or deferred as a result of feedback received, for example from the IFRS Advisory Council, the IFRS Interpretations Committee and our constituents. When the changes introduced by an IFRS are extensive and/or complex, deferral of the review may be appropriate to allow more time for the effects of the new requirements to be understood.

### *Standards reviewed*

Our post-implementation reviews are routine reviews conducted after the implementation of all new IFRSs and major amendments. The reviews consider the whole of the IFRS / amendment. In developing our approach we considered whether to also include the existing IFRSs and IASs. We decided that a different type of review is more appropriate for the older standards; these should be conducted when specific concerns with them are identified, and they should focus on the concerns raised. We therefore expect these reviews to follow a different approach and they may form part of the preparatory work for developing an agenda proposal for adding a project to the Board's agenda.

### *Structure of our post-implementation reviews*

Public consultation, input from the financial reporting community and acting in the public interest are important features of our consultation process and will also apply to our post-implementation reviews. We will:

- Consult widely to help us determine the issues on which we should focus our attention.
- Publish our scope and work plan for the review.
- Publish, for comment, the preliminary findings from our review, including our draft proposals for how we could respond to those findings.
- Publish our final report of our findings, including proposed responses and provide feedback on how comments received on the draft report have been dealt with.

Our post-implementation reviews will be conducted in three phases, as follows:

1. Developing the work plan
2. Investigating the issues
3. Reporting.

The three phases, and the objective of each phase, are described below.

## The three phases of post-implementation reviews

### Phase 1: Developing the work plan

*Objective:* To identify the issues on which to focus the review and to develop the work plan to research those issues.

The post-implementation reviews focus on the issues that were identified as contentious at the time of finalising the IFRS and also on the unexpected costs or implementation issues for the standard. Some of those implementation issues will have been identified by the IFRS Interpretations Committee. In order to learn about other implementation issues and unexpected costs, we will consult widely. We will then undertake a preliminary analysis of those issues in order to identify the areas of main concern to stakeholders on which to focus the review.

#### *Initial consultation*

In seeking to identify common implementation issues and unexpected costs, we will publish an open invitation to stakeholders to tell us about their concerns about the IFRS. This will provide an opportunity for all interested parties to contribute to the review. In addition to this public consultation, we will seek to identify issues on which to focus our work by:

- a. Reviewing issues reported by securities regulators
- b. Considering issues referred by the IFRS Interpretations Committee
- c. Learning about relevant matters on which national standard setters or securities regulators have issued local interpretations or guidance relating to concerns with the IFRS

#### *Focusing the review*

Analysing the information gathered in the initial consultation, we will develop a detailed work plan that is focused on those issues that are of greatest concern because of the prevalence of the issue and their significance for financial reporting. We will use meetings with stakeholders to gather the information and the evidence to make this assessment and we will seek the views of the IFRS Interpretations Committee. This analysis will also allow us to identify whether some of the issues are more appropriate to be referred to the IFRS Interpretations Committee.

These stakeholder meetings (and other liaison activities, as appropriate) will be with targeted stakeholder groups and will include:

1. Users and user groups
2. Preparer groups
3. Audit firms
4. Securities regulators
5. The National Standard Setters group

The meetings with users and user groups will also be used to understand how the users' analysis of financial statements has changed as a result of the IFRS, identifying the benefits of the changes and/or the costs or reduced usefulness of the information that is now provided.

At the completion of the planning phase, we will publish the scope of our post-implementation review for the IFRS, setting out the issues on which the next part of the review will be focused, and our work plan that we will use. We will also report on the consequences for the issues identified through the initial consultation but that will not be carried forward to the next part of the review.

## **Phase 2: Investigating the issues**

*Objective:* To gather and analyse evidence supporting the concerns raised by stakeholders that establishes the extent and nature of the issue and to propose solutions to address the issues that were identified.

Using the work plan developed in phase 1, we will gather evidence to understand the effect that the issue is having on financial reporting and the underlying cause of the issue. We will analyse this information and identify possible solutions, if applicable, for future standard-setting action. We plan to work with national standard setters and other organisations, to gather the supporting evidence needed to make the necessary assessment.

We will conduct this phase by:

1. Investigating and gathering examples of each of the issues selected for review to understand:
  - a. The effects that the issue has on financial reporting and/or the nature of the unexpected costs associated with the issue
  - b. The underlying cause of the issue, including assessing whether the issues relate to:
    - i. The requirements of the IFRS
    - ii. The way in which the requirements of the IFRS are worded
    - iii. The way the IFRS is implemented
2. Developing proposals for addressing the issues, where appropriate

We will discuss the findings of our review, and our proposed responses, in our public Board meetings.



### **Phase 3: Reporting**

*Objective:* To set out our response to the issues analysed in the review.

Having completed our analysis in phase 2, we will report our findings. We will initially publish a draft report for public comment. After reviewing the comments received, and conducting follow-up work as needed, we will publish our final report.

We will publish the final report setting out:

- a. A summary description of the completed review
- b. A description of the issues analysed and the proposed ‘next steps’, if any, divided into the following categories:
  - i. Proposals for process improvements to our standard-setting Due Process
  - ii. Issues to be referred to the IFRS Interpretations Committee
  - iii. Issues to be included in an agenda proposal for an IASB project
  - iv. Other, including where no change is considered necessary
- c. Feedback on how comments on the draft report have been dealt with.

The report will include a basis for our conclusions and recommendations.