AGENDA PAPER

IFRS Foundation Trustees' meeting—Due Process Oversight Committee

London 12-13 April 2012 **Agenda ref** **3D**

From: Michael Stewart—*IASB Director, Implementation Activities*
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Re: Post-implementation reviews—progress report on the review of IFRS 8

Background

1. In 2007 the Trustees added a new step to the development and major amendments cycles of IFRSs by having the IASB review new requirements after they have been implemented. This new step is called a 'post-implementation review' (PIR).

2. The catalyst for this new requirement was the development of IFRS 8 *Operating Segments*, which was issued by the IASB in November 2006 and became effective on 1 January 2009. The new requirements introduced several fundamental changes to how segment information should be reported. The IASB assessment—that these changes would improve the quality of financial reports—was not shared by all respondents to the proposals. The Trustees decided that it would be appropriate for the IASB to review the important issues identified as contentious during the development of the pronouncement and to assess whether there were any unexpected costs or implementation problems associated with their implementation.

3. The review of IFRS 8 is the first such PIR undertaken by the IASB. We have used this review to help develop and refine the IASB's approach to PIRs more generally. This paper sets out how we are conducting the PIR for IFRS 8. The approach has evolved since it was last discussed by the DPOC in January 2012 (refer to Agenda paper 3A *Post-implementation reviews—an overview*). Those changes reflect feedback from the DPOC meeting, input from the IASB members and feedback from participants in the first stages of the review of IFRS 8.

Developing the PIR methodology

4. The IASB's approach was developed throughout 2011, with regular updates to the DPOC. In January 2012 we set out for the three planned phases of a typical PIR:

   (a) *Phase A—defining the scope and developing the work programme.* The objective of this phase is to identify issues on which to focus the review and to develop the work programme to research those issues.

   (b) *Phase B—investigating the issues identified*. The objective of this phase is to gather and analyse evidence to help us understand the effect on financial reporting of applying the IFRS; the outcome of issues that were contentious at the time of finalising the IFRS; and the nature of, and reasons for, any significant implementation difficulties or significant unexpected costs when applying the IFRS.

   (c) *Phase C—reporting*. The objective of this phase is to set out our response to the issues analysed in the review.

5. The DPOC expressed some concerns about the process, particularly the extent and timing of the public consultation. Members of the DPOC also sought clarity about how we planned to conduct some aspects of the reviews, such as how we intended to collect evidence, assess the scope of the reviews and what sort of recommendations or actions the IASB might take as a consequence of these reviews. At the same time, the staff had started to discuss the review process with other accounting standard-setters, using IFRS 8 as an example.

6. In addition, we discussed the review process with the IFRS Advisory Council (Advisory Council); the IFRS Interpretations Committee (Interpretations Committee); the Global Preparers Forum (GPF); regional standard-setting forums including the European Financial Reporting Advisory Group (EFRAG); the Group of Latin American Accounting Standard Setters (GLASS); the Asian-Oceanian Accounting Standard-Setters Group (AOSSG); and the Capital Markets Advisory Committee (CMAC).

7. As a result of the feedback received the staff developed a modified PIR model. The revised model was discussed in a public meeting of the IASB in March, and was supported by all IASB members. The next sections of this report describe the revised model and explain the reasons for the changes.

Consultation and transparency

8. We received feedback that the investigation stage of the PIR was not sufficiently transparent because it was not clear who was being asked to provide us with input. Some national standard-setters were concerned that

their only substantive input would be at the very beginning of the process and they also wanted significantly more time to consult than the original plan allowed. Many thought that we should adopt a process similar to that of the public agenda consultation. Many also thought that we should consult publicly at an earlier stage than originally proposed.

9. In response, we have introduced a public consultation step in the early part of the review. After seeking input, designed to establish the scope of the review, from a wide range of interested parties, including other standard-setters, we will issue a *Request for Information* (RFI). This will have a four-month (120-day) comment period and will include questions on the issues identified for investigation. This step will provide standard-setters with the opportunity to give formal feedback on the IFRS being reviewed, as well as additional time to develop their views. It also provides a more open and transparent consultative process.

10. This means that the investigation of the issues will be carried out principally through a transparent and public comment letter approach. This process will replace the planned data collection survey about implementation issues and costs.

11. Complementing the RFI will be targeted outreach, including structured interviews with, and surveys of, investors and analysts. At this early stage we will also initiate a review of academic literature.

Scope

12. The IASB's *Due Process Handbook* describes PIRs as being focused on "contentious issues and considerations of implementation issues and unexpected costs". This is interpreted by some as preventing the IASB from undertaking a broader review of a new requirement. Many stakeholders told us that they also wanted the IASB to consider the effectiveness of the new IFRS. Did it achieve what the IASB had expected it to achieve?

13. On the other hand, it is not the purpose of a PIR to revisit all of the decisions made and the issues raised when the new IFRS was developed. What is clear is that neither the Trustees nor the IASB think that the reviews should be artificially constrained to matters identified as being contentious at the time the IFRS was developed. The goal of improving financial reporting underlies any new IFRS and concerns about the quality of a new IFRS should be considered as part of the PIR process.

14. We think that the wording in the *Due Process Handbook* has created a perception that the IASB does not plan to consider whether the new IFRS improved financial reporting. However, the reality is that the more fundamental changes being made by the IASB are invariably also the issues that are contentious. This is certainly the case for IFRS 8. We do not see this as a change in the scope of the PIRs. We think it would be helpful to clarify this and accordingly the draft of the revised *Due Process Handbook* includes revised wording for the section on scope: "To establish the scope of the review, the IASB identifies the issues that were <u>important or </u>contentious during the development of the publication" (emphasis added).

Timing

15. We also received feedback about the timing of the PIRs. Some think that, currently, the review is too late to catch unexpected implementation and drafting issues and oversights. Others think that the review is too early if we want to assess whether the changes have improved the quality of financial reporting in a meaningful way. Such an analysis will often rely on academic studies, which generally require longer time-series data than would be provided by two years of implementation.

16. These concerns would be valid if the PIR was rigid or if it was the only review process undertaken by the IASB. The IASB has an active review process from the time a new IFRS is issued. Staff and IASB members meet with auditors, regulators and preparers after new requirements are issued. In addition, matters are often brought to the attention of the Interpretations Committee before an IFRS becomes effective. The Interpretations and narrow-scope improvements processes deal with drafting issues and oversights. The IASB is also aware that it might be too early to be able to assess the effectiveness of a new IFRS. If this is the case the PIR report might recommend that the staff continue to include a review of academic literature in its research programme. The three-yearly review of the IASB's work programme also provides an opportunity to review any ongoing research and allows for interested parties to ask us to have another look at a topic previously subjected to a PIR.

17. To summarise, we already have complementary processes to deal with shorter and longer term issues.

Flexibility and expectations

18. The feedback we received emphasised the importance of having a flexible approach to the PIR process. Each PIR will be tailored to the particular requirements of the IFRS being reviewed, but the general approach will be to

define the scope of the review and to establish a timetable that reflects the breadth and depth of analysis planned. After the responses to the public RFI have been analysed, the IASB will need to assess whether sufficient information has been received so that the PIR can be completed. In most cases the IASB will be able to conclude the review. However, it is possible that in some cases the IASB will decide to extend the analysis being undertaken, perhaps by developing a project within its research programme.

19. It is also important that we manage expectations. There is no presumption that a PIR will lead to any changes to an IFRS. Any recommendation that the IASB consider making fundamental changes to an IFRS would lead to a project proposal that would have to be assessed in the light of other priorities.

20. The IASB might also recommend to the DPOC that the IASB should make changes to its procedures, such as how effects of the IFRS are assessed or additional steps that should be taken during the development of an IFRS.

Summary of the PIR process

21. The revised process that we are using to conduct the IFRS 8 is described below in a draft extract from the new *Due Process Handbook.*

Draft PIR section of the Due Process Handbook

Post-implementation review (PIR)

1.1. The IASB is required to conduct a PIR of each new IFRS or major amendment.[1] A PIR normally begins after the new requirements have been applied internationally for two years, which is generally about 30 to 36 months after the effective date.

1.2. In addition to PIRs that respond to a new IFRS or major amendment, the IASB may decide to conduct a PIR in response to changes in the financial reporting environment and regulatory requirements, or in response to concerns about the quality of an IFRS that have been expressed by the Advisory Council, the Interpretations Committee, standard-setters or interested parties.

1.3. Each review has two phases. The first involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the IASB in the form of a *Request for Information*. In the second phase, the IASB considers the comments it has received from the Request for Information along with information it has gathered through other consultative activities and then undertakes the review. On the basis of that information, the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.

[1] This requirement was introduced in 2006. The first major project subjected to a review was IFRS 8 *Operating Segments*.

Initial assessment and public consultation

1.4. To establish the scope of the review, the IASB identifies the issues that were important or contentious during the development of the publication. These matters should be identifiable from the Basis for Conclusions, Project Summary and Feedback Statement and Effect Analysis of the relevant IFRS. The IASB and its staff also consult with the wider IFRS community to help the IASB identify areas where possible unexpected costs or implementation problems were encountered.

1.5. This initial review should draw on the broad network of IFRS-related bodies and interested parties, such as the Interpretations Committee, the IASB's consultative groups, including the Advisory Council, securities regulators, national and regional standard-setting bodies, preparers, auditors and investors. The purpose of these consultations is to inform the IASB so that it can establish an appropriate scope for the review. How extensive the consultations need to be in this phase will depend on the IFRS being reviewed and on what the IASB already knows about the implementation of that IFRS. The IASB needs to be satisfied that it has sufficient information to establish the scope of the review.

1.6. The IASB publishes a Request for Information, setting out the matters for which it is seeking feedback by means of a formal public consultation. In the Request for Information, the IASB should explain why it is seeking feedback on the matters specified and should include any initial assessment by the IASB of the IFRS or major amendment being reviewed. The Request for Information will also set out the process that the IASB followed in establishing the scope of the review.

1.7. The IASB normally allows a minimum of 120 days for comment on a post-implementation Request for Information. The IASB must inform the DPOC before the Request for Information is published if it intends to have a comment period of less than 120 days.

1.8. The IASB may decide, on the basis of its initial assessment, that it would be premature to undertake a review at that time. The IASB must inform the DPOC of its intention to defer a PIR, explaining why it has reached this conclusion and indicating when it expects to resume the review.

Consideration of evidence and presentation of findings

1.9. The IASB considers whether it is necessary to supplement the Request for Information with other information or evidence, such as by undertaking:

(a) an analysis of financial statements or of other financial information;

(b) a review of academic and other research related to the implementation of the IFRS being reviewed; and

(c) surveys, interviews and other consultations with relevant parties.

1.10. The extent to which further information is gathered will depend on the IFRS being reviewed and the feedback in the Request for Information.

1.11. The IASB considers the comments that it has received from the Request for Information along with the evidence and information that it has obtained from any additional analysis.

When the IASB has completed its deliberations, it presents its findings in a public report. The IASB may consider making minor amendments to the IFRS or preparing an agenda proposal for a broader revision of the IFRS. There is no presumption that a PIR will lead to any changes to an IFRS. The IASB may also continue informal consultations throughout the implementation of the IFRS or the amendment to the IFRS. The IASB may recommend to the DPOC that the IASB should make changes to its procedures, such as how effects of the IFRS are assessed or additional steps that should be taken during the development of an IFRS.

1.12. The IASB must inform the DPOC when it has completed its review and provide the DPOC with a draft of the report. When the DPOC is satisfied that the IASB has completed the review satisfactorily, the report can be finalised.

22. In the next parts of this paper we set out in more detail how the PIR of IFRS 8 is progressing.

Post-implementation Review of IFRS 8

Background

23. The project to develop IFRS 8 was added to the IASB's agenda in September 2002 as a short-term convergence project, conducted jointly with the United States national standard-setter, the Financial Accounting Standards Board (FASB). The objective of the project was to reduce differences between IFRSs and US GAAP that were capable of resolution in a relatively short time and that could be addressed outside the major projects.

24. As part of the project, the IASB identified the differences between the existing Standard, IAS 14 *Segment Reporting* and the US standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information.* The IASB also reviewed academic research findings on segment reporting and held meetings with users of financial statements.

25. SFAS 131 and IAS 14 differed in two main respects:

   (a) *Identification of segments*: IAS 14 required segments to be identified on the basis of differences in the risks and returns of either the products and services provided (a business segment approach) or the economic environments in which the entity operated (a geographical segment approach). SFAS 131 requires that operations are reported 'through the eyes of management'. The segments identified in accordance with the requirements of SFAS 131 are those segments that are used internally and that are reviewed by the chief operating decision maker (CODM) when allocating resources.

   (b) *Measurement basis*: IAS 14 required the amounts disclosed for each segment to be measured on an IFRS basis (ie consistently with the requirements used in the rest of the IFRS financial statements). SFAS 131 requires the amounts disclosed for each segment to be measured on the same basis as that used internally by the CODM when allocating resources.

26. The main differences between SFAS 131 and IAS 14 are tabled below:

	SFAS 131	**IAS 14**
Basis on which reportable segments are identified	Segments operations on the basis of internal reporting used by the CODM in allocating resources.	Segments operations by the goods and services provided to customers or by geographical region.
Measurement basis of required disclosures	Each reported line item is measured on the basis used for reporting to the CODM.	Each reported line item is measured on the basis used in preparing the group's financial statements, in accordance with IFRS.

	SFAS 131	IAS 14
Consistency with financial statements	Reported line items are not defined. Their basis should be explained.	Reported line items, such as profit, are as defined in the financial statements.

27. The most controversial aspect of IFRS 8 was a move away from information presented on the basis of business and geographical segments to a 'through the eyes of management' approach. The other concern was allowing entities to report segment information using the information used by the CODM rather than IFRS figures.

28. A comparison of the expected benefits and disadvantages of applying the proposed standard at the time it was issued are tabled below:

Benefits	Disadvantages; contentious issues
Convergence with US GAAP.	
'Management eyes' perspective would improve users' ability to predict future results and cash flows.	'Management eyes' perspective would reduce the quality and comparability of segment information.
Highlights risks that management think are important.	Frequent internal re-organisations would result in a loss of trend data.
Use of management reporting would result in greater interim reporting.	Geographical analyses would not be available.
	Non-IFRS measures would not be understood.

29. At the time that IFRS 8 was developed there were conflicting views among the investor community as to whether the change in segment focus would improve financial reporting. In the IASB's view, however, the ability to see a business through the management's view would help users to predict future results and cash flows and this improvement would outweigh any perceived lack of comparability between entities. Consequently, when the project concluded, the IASB decided to withdraw IAS 14 and replace it with IFRS 8. IFRS 8 achieved convergence with SFAS 131, with the exception of a few minor differences.

30. A significant factor in favour of IFRS 8 was the ability of entities to report segment information on a quarterly basis, which preparers stated they could not do if they were required to apply IAS 14.

Initial assessment and public consultation

31. The agenda paper presented to the DOPC in January described identifying issues that needed to be investigated as follows:

> The IFRS (including the Basis for Conclusions) and the original project documentation (including the Feedback Statement and Effects Analyses), from when the IFRS was developed, set out the

> intended objective of the IFRS and the issues that were contentious at the time of developing the IFRS. The effects analysis helps us identify the issues that were considered the most important matters at the time the new IFRS was issued.

32. IFRS 8 predates the Effect Analysis process that is now carried out whenever an IFRS is issued. Consequently, instead of using an Effect Analysis to identify issues that were considered important when IFRS 8 was issued, we reviewed:

    (a) the IFRS its Basis for Conclusions;

    (b) project papers, including the comment letter analyses presented to the IASB in September 2006 and the sweep issues taken to the IASB in October 2006;

    (c) enforcement and other regulatory publications at the time of endorsement; and

    (d) articles that were published when the standard was issued.

33. This information was used to construct the equivalent of an Effects Analysis by detailing the benefits expected from the application of IFRS 8 and recording the contentious issues that arose when the IFRS was being developed (see paragraph 28).

Identifying implementation issues

34. The agenda paper presented to the DPOC in January described identifying implementation issues as follows:

> To identify the other matters to be considered by the review, ie whether there have been any significant implementation difficulties or significant unexpected costs associated with applying the IFRS, we will:
>
> (a) consider issues submitted to the IFRS Interpretations Committee (IC)
>
> (b) review reports issued by securities regulators.
>
> (c) request information from securities regulators and national standard setters about local interpretations relating to the IFRS that have been issued by them.

35. In order to identify possible implementation issues and unexpected costs associated with applying IFRS 8 we have:

    (a) reviewed issues referred to the Interpretations Committee;

    (b) reviewed implementation guidance produced by the larger firms of accountants and discussed that advice with them, where possible;

    (c) reviewed any implementation reports subsequently prepared by regulators; and

(d) collaborated with the national standard-setters to identify a full range of local issues (see paragraphs 37–40).

Update on progress to date (March 2012)

36. The progress made to date on the PIR of IFRS 8 is summarised below:

(a) We have substantially completed the broad-scope review of publicly available materials from the firms, regulators and investors to identify the principal issues for investigation and as a basis for formulating the work programme.

(b) We have contacted firms, investors and the national standard-setters to inform them about the process and ask for their help. We have held conference calls with national standard-setter participants, as well as holding some individual meetings, to clarify their involvement in the process (see paragraphs 37-41).

(c) An IASB academic fellow has begun a review of existing academic research on IFRS 8.

(d) The assigned IASB members have held a preliminary meeting to provide us with initial feedback on the scope and timing of the review and the development of the detailed work programme.

(e) The IASB discussed and agreed a revised approach for the IFRS 8 PIR at its IASB meeting in March.

Involvement of national standard-setters in the PIR process

37. We have contacted national standard-setters to agree a collaborative way of working together in the PIR process. In response to our request for help, 15 national and regional standard-setters have volunteered to help us in the PIR of IFRS 8. The information we receive will be made available to all national standard-setters through the SharePoint® site we manage for them, which should help other standard-setters to join us later in the process if they choose to do so.

38. The initial participants ensure a good geographical coverage for the planning stage:

Region	**Number**
Africa	1
Asia & Oceania	5
Europe	5
Latin America	2
North America	2
Total volunteers	**15**

39. We have asked the national standard-setter volunteers to take part in this process by:

(a) helping us to identify the issues that should be included in the RFI by obtaining that information from their constituents (collecting these issues from a range of participants in their jurisdiction, including the firms, regulators, preparers, investors—as well as their own thoughts);

(b) raising awareness of this process locally and, in particular, encouraging their constituents to submit a comment letter in due course; and

(c) identifying investor bodies locally (including those who invest, such as pension funds, insurance entities and asset management entities) that we should consult with on an individual or small-group basis. We would welcome the national standard-setters' participation in those discussions. These discussions would mostly take place during the comment period.

40. Following consultation with the volunteers, the timetable for this process has been extended to allow increased participation locally and to allow them to consult their own boards more formally. The agreed timetable for the scoping exercise is:

Date	Milestone
21 March	Receipt of preliminary list of issues for group discussion
23 March	Group discussion of preliminary issues
17 April	Receipt of final national standard-setter issues after local review

41. Our initial consultation with national standard-setters and others will form the basis of the questions included in the RFI about the effect of implementing IFRS 8.

Next steps

42. We plan to publish an RFI in June 2012. At the same time we will undertake additional consultation, such as interviews and literature reviews of academic studies.

43. Reporting the findings is the final step in the planned process. The agenda paper presented to the DPOC in January describes this phase as follows:

> Having completed our analysis in Phase 2, we will report our findings. Our report will describe:
>
> (a) what we have done
>
> (b) what we have learnt about whether the IFRS has achieved what we intended it to achieve, and any follow up that we think might be appropriate in the light of what we have learnt.
>
> (c) the issues analysed and explain the proposed 'next steps', if any, divided into the following categories:
>
> (d) proposals for process improvements to our standard-setting Due Process

(e) issues to be referred to the IFRS Interpretations Committee

(f) issues to be included in an agenda proposal for an IASB project

(g) 0ther, including where no change is considered necessary.

44. The reporting phase is likely to be concluded in the first half of 2013.

Time line

45. We intend to discuss the IFRS 8 PIR with the IASB at the May IASB meeting. At that meeting we will present a paper that provides an outline of the RFI and includes, for the IASB's approval and comment, a discussion of the issues identified for investigation.

46. The draft timetable for the PIR is as follows:

Timing of review work performed	
January and February	Preliminary broad-scope review to identify potential issues and draft work programme.
March	Test preliminary issues identified with firms, regulators, standard-setters and investors and extend if necessary to ensure completeness. Review existing academic research .
April	Confirm topics for investigation.
May	Outline RFI and issues to be investigated.
June	Publish RFI.
October	End of comment period.
December	Preliminary findings presented to the IASB. IASB assess adequacy of data collected.

47. We will provide the Trustees with further progress reports at their future meetings in 2012 and 2013.

48. We welcome any feedback from the DPOC on the revised PIR process and the plans for the IFRS 8 review.