

# AGENDA PAPER

IFRS Foundation Trustees meeting–Due Process Oversight Committee

Singapore

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Agenda ref 3A

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## Post-implementation reviews—an overview

### Background

The IASB has started its first post-implementation review (PIR), of IFRS 8 *Operating Segments*.

The purpose of this report is to update the DPOC on how the PIR methodology is developing and the planning for the IFRS 8 review. The report begins by outlining similar processes being undertaken by the US Financial Accounting Foundation (FAF).

### The FAF approach

IASB staff have been liaising with FAF staff during the development phase to see if there are ways in which we can share methodologies or data.

The FAF is planning to have four elements to its reviews. Initially, the staff will review the FASB staff board papers and the Basis for Conclusions for the related standard. The purpose of this review is to help establish the scope of the PIR by identifying the stated objectives of the project and specific areas of interest, such as those matters that proved more difficult or controversial in developing the standard.

The second element is that the FAF then plans to identify an academic researcher to undertake a review of research related to the standard. The FAF does not expect to commission any new research, instead limiting the review to existing literature.

The other two elements involve surveys and interviews. The FAF plans to conduct a general survey across a broad range of parties. The final leg is a deeper survey, supplemented by interviews aimed at a narrower but more focused sample.

The information gathered is then used to prepare a report to the FAF.

The approach we are developing is consistent with that of the FAF. It will be important that our approaches are compatible. The first two IFRSs we are reviewing

are converged standards—operating segments and business combinations. It makes no sense to conduct separate reviews. Having said that, the IASB needs to assess the standards internationally whereas the FAF will focus on the US. On the face of it, this means that work performed by the FAF could feed into the IASB PIR. If we do not align our approaches there is a risk that the IASB would need to duplicate some of the work performed by the FAF.

Unfortunately there are some environmental differences that we need to work through. For US GAAP, the PIR process is being undertaken by the FAF, not by the FASB. The FAF is placing greater emphasis on independence than transparency. For example, the broad survey is being undertaken by an independent agency, with sample selection being determined by that agency. The survey results and the reports to the FAF are also likely to be confidential. There are doubts about our ability to refer to some, or any, of the data collected or reports prepared by the FAF staff.

### **The IASB approach**

Our PIR approach will be similar to that of the FAF. 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 depth of analysis planned. However, rather than thinking of the academic review, general review and deeper interviews as being separate elements, this is the IASB's collective investigative (evidence gathering) phase. As mentioned earlier, we will collaborate as far as possible with the FASB, and other standard setters in this phase. Once the matters have been investigated the results will be reported.

We do not plan to expose the review for public comment, but the review will be undertaken in an open, transparent, manner so that interested parties will be able to provide information to the IASB during the period of the review.

We expect the PIR report to be similar in nature to the effect analyses we are developing. An effect analysis sets out what the IASB anticipates will be the likely effect of a new requirement, such as an IFRS. In doing so, the effect analysis identifies how the new requirements are expected to improve financial reporting, how the financial reports will be affected and the likely costs on transition and on an ongoing basis. On the face of it, a PIR could report on how the anticipated benefits, and costs, have manifested.

We need to be flexible about the timing and scope of each PIR. Some of the changes that a new, or amended, IFRS bring to financial reporting will be pervasive. Other changes could be much narrower in scope. For example, the revenue recognition and leases projects are likely to lead to significant changes for many entities. Those projects are likely to warrant more significant PIRs than the change in the requirements for recognising borrowing costs, made in March 2007.

Each PIR will help us to learn about whether the IFRS (or major amendment) has brought about improvements in financial reporting; ie does it better meet the needs of investors and other users and does it provide more useful information? We will also learn about the whether the costs of transition and implementation were as expected.

Each PIR is also expected to be an assessment of what the Board expects to do as a result of what was learnt. Again, the nature of any possible actions will reflect the scope of the review.

A PIR might identify some aspects of the IFRS that are causing difficulties, perhaps in terms of implementation problems or because they are not meeting the informational needs of investors that the changes set out to achieve. In such cases the Board might conclude that the problems identified could warrant consideration for developing a new technical project. Any such potential project would feed into the Board's agenda-setting process and would be assessed in the light of other priorities.

In some cases the Board might decide to extend the review because, perhaps, it is too early to assess the informational benefits of the new IFRS because there is, as yet, insufficient academic research.

A PIR might establish that the costs of making the transition to the new requirements were significantly greater than the Board had expected. There is little that the IASB can do to remedy that problem, at least for the IFRS being reviewed. However, it might help the Board improve how it assesses the costs of transition or cause the Board to rethink how it manages transition in future projects.

## **Timing**

A PIR is the "final step" in the standard-setting process. However, it is not a replacement for the other implementation processes that we have in place; the interpretations process and the annual improvements process will both continue to be applied to relevant issues in addition to conducting post-implementation reviews.

It is important that we allow time for entities and users to become familiar with the requirements of a new IFRS, so that our review focuses on the ongoing application of the IFRS. Accordingly, the timing of when we conduct the reviews depends on the nature of the IFRS being reviewed. It is likely that IFRSs that address complex issues, or that require a fundamental change from previous IFRS requirements, will need to be reviewed after a longer period of implementation.

We will seek the views of national standard-setters, the IFRS Interpretations Committee and the IFRS Advisory Council on the optimum timing for the review of each IFRS.

We expect a PIR to take no more than twelve months.

## **The steps**

### **Phase 1: Defining the scope and 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.

#### ***Defining the scope***

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.

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:

- (i) Consider issues submitted to the IFRS Interpretations Committee.
- (ii) Review reports issued by securities regulators.
- (iii) Request information from securities regulators and national standard-setters about local interpretations relating to the IFRS that have been issued by them.

#### ***Developing the work plan***

Having identified the scope of the review, we will develop a work plan to address that scope. Each review will need to be tailored to the relevant issues for the IFRS being reviewed. We will discuss the work plan for each review in our public Board meetings.

We will seek views from national standard-setters on the work plan prior to finalising it, including how the national standard-setters might participate in the review with us.

#### ***Example - Operating Segments***

When IFRS 8 was being finalised the IASB prepared an analysis of the effect of the equivalent US GAAP standard, to which IFRS 8 converged. The European Commission also prepared an analysis of the likely effects of the new standard. These analyses provide us with a good starting point for establishing the scope of the review of IFRS 8. Basically, we are interested in whether a switch from geographical and industry defined segmentation to segments reflecting how an entity manages its business is an improvement to IFRSs. That may be difficult to ascertain this early, because academic studies of analyst forecasts and bid-ask spreads (both of which are proxies for uncertainty) often rely on greater time-series than two years. Nevertheless, we will be undertaking a review of research in this area.

## **Phase 2: Investigating the issues (evidence gathering)**

*Objective:* To gather and analyse evidence to help us understand:

1. What has been the effect of the IFRS on financial reporting in the following context?
  - (a) Has the IFRS (or major amendment) achieved what we intended it to achieve?
  - (b) Does it better meet the needs of investors and other users and provide more useful information?
2. the outcome, or the status, of issues that were contentious at the time of finalising the IFRS
3. the nature of, or reasons for, any significant implementation difficulties or significant unexpected costs associated with applying the IFRS.

Using the work plan developed in phase 1, we will gather and analyse evidence to help us learn about how the IFRS has been implemented. To help us with the gathering of information and evidence, we will:

1. meet with users and user groups
2. seek the assistance of national standard-setters, or other similar organisations
3. review academic research reports that address the issues being reviewed, or summaries of such research prepared by academics.

The evidence gathering will involve the use of surveys of groups such as national standard-setters, the Capital Markets Advisory Committee and the Global Preparers Forum to understand the breadth of the issues, generally. We will also make use of more narrowly focused and more in-depth surveys of users and user groups to elicit their views on whether the IFRS achieved what we intended it to achieve and whether it better meets their needs of providing useful information.

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

Although we describe the collection of evidence as a separate phase, it is possible that the general survey we undertake will identify some issues we had not anticipated from our earlier consultations with national standard-setters and others. We will use that information to help shape the more in-depth surveys and interviews.

## **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. Our report will describe:

1. What we have done
2. 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.
3. Describe the issues analysed and explain the proposed 'next steps', if any, divided into the following categories:
  - (a) Proposals for process improvements to our standard-setting Due Process
  - (b) Issues to be referred to the IFRS Interpretations Committee
  - (c) Issues to be included in an agenda proposal for an IASB project
  - (d) Other, including where no change is considered necessary.

The report will be discussed in public Board meetings before it is finalised to allow all interested parties to see and understand the conclusions that we draw from the review.

### **IFRS 8 Operating Segments**

The chart that follows sets out the timetable for the IFRS 8 review.

## Post-implementation review of IFRS 8-draft timeline

Review work streams	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>General/staff research</b>												
Review of original project documentation - Basis, Feedback Statements, Effect Analyses etc												
Review issues submitted to IFRS Interpretations Committee												
Summarise and discuss progress and plans in public Board meetings				Board								
<b>Academic research</b>												
Identify potential researchers to review academic literature												
Collect relevant extant academic research and/or surveys												
Review research												
Summary of findings												
Discuss findings with Board in public Board meetings									Board			
<b>Broad scope survey</b>												
Request information from, and review reports issued by, securities regulators and NSS												
Prioritise issues from preliminary research												
Review financial statements for evidence of effects of new requirements												
Summarise and discuss findings from broad-scope survey with Board in public Board meetings												
<b>Narrow-focus/in-depth surveys</b>												
Develop questionnaires for users and for preparers/auditors/regulators												
Seek input from CMAC, GPF, etc. on questionnaire design												
Contact NSS to assist with survey implementation												
Conduct survey												
Review survey responses and perform follow-up procedures where appropriate												
Undertake interviews of representative users/preparers/auditors												
Meet with representative groups, such as CMAC and GPF, to 'test' findings												
Summarise and discuss findings from narrow-focus surveys with Board in public Board meetings									Board			
<b>Reporting</b>												
Identify the 'next steps' required to respond to findings from the review												
Summarise work done and findings in report												
Discuss draft report with IASB in public Board meeting											Board	
<b>Publish report</b>												