

STAFF PAPER

19 - 21 March 2012

IASB Meeting

Project	Post-implementation review of IFRS 8		
Paper topic	Update on progress made to February 2012		
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Purpose

1. Over the last few months we have developed and refined the Board's approach to post-implementation reviews (PIRs), a new mandatory step in its due process for major projects and amendments to IFRSs. The first PIR will focus on IFRS 8 *Operating Segments*, which was issued by the IASB in November 2006 and became effective on 1 January 2009.
2. This paper sets out how we intend to conduct the PIR for IFRS 8 and the reasons why the staff recommend that approach. The paper also explains how the proposed approach has changed since a generic methodology, outlined in Agenda paper 3A, *Post-implementation reviews—an overview*, was tabled at the January meeting of the Trustees' Due Process Oversight Committee (DPOC).

Questions for the Board

3. In this paper we will ask:
 - (a) whether the Board approve the approach proposed for conducting the PIR of IFRS 8, and

- (b) whether the Board have any queries on the PIR process or suggestions on how that process as applied to IFRS 8 could be improved.

Structure of the paper

- 4. The paper is organised as follows:
 - (a) introduction of PIRs;
 - (b) agenda paper presented to the DPOC in January 2012;
 - (c) background to the development of IFRS 8;
 - (d) how the PIR review process has been developed with regard to IFRS 8;
 - (e) update on progress to February 2012;
 - (f) involvement of National Standard-Setters (NSS) in the PIR process;
 - (g) next steps; and
 - (h) time line.

Introduction of PIRs

- 5. The Trustees added PIRs as a mandatory step to the IASB's due process requirements in 2007. At that time, there was some controversy over the introduction of IFRS 8 *Operating Segments*. The *Due Process Handbook* states that the PIRs would normally be limited to important issues identified as contentious during the development of the pronouncement and to consideration of any unexpected costs or implementation problems encountered. The handbook also states that the PIR should take place two years after the mandatory effective date.
- 6. IFRS 8 is the first of the Board's standards to be subject to a PIR.

Agenda paper presented to the DPOC in January 2012

- 7. The Board's approach was developed throughout 2011, with frequent updates being provided to the Trustees and others. Agenda paper 3A *Post-implementation*

reviews – an overview presented on 11 January to the DPOC at the Trustees' meeting in Singapore summarised the Board's approach to PIRs at that time. That paper describes 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.
8. The agenda paper indicated that Phase B, *investigating the issues identified*, would be completed for the PIR of IFRS 8 by July 2012. The agenda paper was posted on the PIR website in January as part of our communications to constituents.
9. 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. In developing the PIR work programme for IFRS 8, we are aware that lessons learnt in this process will affect how subsequent PIRs are carried out. The PIR of IFRS 3 *Business Combinations* is due to start later this year. We are already co-ordinating with that team to ensure that, to the extent possible, the methodology developed for IFRS 8 will be transferable to other PIRs.
10. This paper provides more detail about how Phases A and B have been developed and revised since the January meeting of the Trustees to tailor that generic methodology to the PIR of IFRS 8.

Background to the development of IFRS 8

11. The project to develop IFRS 8 was added to the Board's agenda in September 2002 as a short-term convergence project, conducted jointly with the United

States 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.

12. As part of the project, the Board identified the differences between the existing IFRS, IAS 14 *Segment Reporting* and the US standard, SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. The Board also reviewed academic research findings on segment reporting and held meetings with users of financial statements.
13. SFAS 131 and IAS 14 differed in two main respects.
 - (a) *Identification of segments*: IAS 14 required segments to be identified based on 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 is based on reporting the operations ‘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 basis 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.

14. 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.

	SFAS 131	IAS 14
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.
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.

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

Benefits	Disadvantages; contentious issues
Convergence with US GAAP	Inconsistent segments between entities
'Management eyes' perspective would improve users' ability to predict	Frequent internal reorganisations would result in a loss of trend data
Highlights risks that management think are important	Geographical analyses would not be available
Use of management reporting would result in greater interim reporting	Non-IFRS measures would not be understood

17. At the time 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 Board'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, at the conclusion of the project the Board decided to withdraw IAS 14 and replace it with IFRS 8. IFRS 8 achieved convergence with SFAS 131 except for a few minor differences.

How the PIR review process has been developed with regard to IFRS 8

Phase A : Defining the scope and developing the work programme

18. We have further developed the PIR review process presented to the DPOC in January to reflect comments received through consultation with a variety of sources. The Board and staff have held consultations on the PIR process with a broad range of the IASB's consultative bodies:
 - (a) IFRS Advisory Council (AC);
 - (b) IFRS Interpretations Committee (IC) ;
 - (c) National Standard-Setters (NSS);
 - (d) World Standard-Setters (WSS);
 - (e) Global Preparers Forum (GPF);
 - (f) Regional standard setting forums including European Financial Reporting Advisory Group (EFRAG); Group of Latin American Accounting Standard-Setters (GLASS) and the Asian-Oceanian Accounting Standard-Setters Group (AOSSG); and
 - (g) Capital Markets Analysts Committee (CMAC).
19. In addition, Board members have recently been assigned to this process. As a result of these outreach activities, and after consulting with Board members, the Trustees and the DPOC, the post-implementation review process presented at Singapore in January has been clarified in respect of the scope of the PIR of IFRS 8.

Scope

20. The consultations undertaken by the IASB in developing the PIR process highlighted the concerns of some constituents that limiting the scope of the review

to contentious issues and considerations of implementation issues and unexpected costs would prevent the Board from undertaking a broader review of a new requirement. 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 issuing the IFRS?

21. The purpose of a PIR is not to revisit all of the decisions made and issues raised when the new IFRS was developed. However, in our view, neither the Trustees nor the Board 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 standard and concerns about the quality of a new standard should be considered as part of the PIR process.
22. 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 PIR of IFRS 8. At the end of this PIR we intend to assess this part of the PIR to consider whether, and to what extent, this should become part of our standard approach to PIRs.
23. The staff have developed the IFRS 8 PIR process with that wider scope in mind.

Question 1

Do the Board agree with the staff's proposal to extend the scope of the PIR of IFRS 8 to include the effectiveness of the standard; that is have we achieved what we intended to achieve by issuing IFRS 8?

Identifying the benefits and contentious issues

24. In developing the work programme we have also taken into account a specific characteristic of IFRS 8—its lack of an effect analysis.
25. The agenda paper presented to the DOPC described identifying issues for investigation 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.

26. IFRS 8 predates the effect analysis process that is now carried out whenever an IFRS is issued. Instead of using an effect analysis to identify issues that were considered important when IFRS 8 was issued, we have done the following:
- (a) reviewed the IFRS and the Basis for Conclusions;
 - (b) reviewed project papers including the comment letter analyses presented to the Board in September 2006 and the sweep issues taken to the Board in October 2006;
 - (c) reviewed enforcement and other regulatory publications at the time of endorsement; and
 - (d) reviewed articles published when the standard was issued.
27. 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 standard was being developed. (See paragraph 16.)

Identifying implementation issues

28. The agenda paper presented to the DPOC 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.
29. In order to identify possible implementation issues and unexpected costs associated with applying IFRS 8 we have done the following:

- (a) reviewed issues referred to the IC;
 - (b) reviewed implementation guidance produced by the larger firms of accountants and discussed that advice with them, when 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 36-0).
30. Following the preliminary identification of issues for subsequent investigation, we were able to draft a detailed work programme to investigate these issues in Phase B.

Phase B : Investigating the issues identified

31. The agenda paper presented to the DPOC described the development of the work programme and the conduct of Phase B as follows:

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 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.

Using the work plan developed in phase A, 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:

- (a) meet with users and user groups
- (b) seek the assistance of national standard setters, or other similar organisations

(c) 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.

Transparency and the approach to investigating issues

32. The January agenda paper to the DPOC stated that we did not plan to expose the review for public comment. Subsequently, however, concern was expressed that collecting data in this way, by survey and through outreach, is not fully transparent. Many thought that we should adopt a process similar to the public agenda consultation. Many also thought that we should consult publicly at an earlier stage than originally proposed.
33. We propose, therefore, that the investigation of the issues should be carried out principally through a transparent public comment letter approach. Under this approach the Board will issue a Request for Views (RFV) that would include questions on the issues identified for investigation. This RFV would be out for public comment for 120 days. This process will replace the planned data collection survey about implementation issues and costs.
34. To supplement the comment letter process, we will also carry out targeted outreach, especially to investors. In addition, we will review existing academic research about the effectiveness of IFRS 8.

Question 2

Do the Board agree with the staff's proposal to increase the transparency of data collection by including the issues for investigation in an RFV for public comment?

Update on progress to February 2012

35. 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 NSS to inform them about the process and ask for their help. We have held two conference calls with NSS participants, as well as holding some individual meetings, to clarify their involvement in the process. (See paragraphs 36-40.)
 - (c) An IASB academic fellow has begun a review of existing academic research.
 - (d) The assigned Board 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.

Involvement of NSS in the PIR process

Phase A Defining the scope and developing the work programme

36. We have contacted the NSS to agree a collaborative way of working with members of that group 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 is made available to all national standard-setters through the SharePoint® site we manage for them, which should help other standard-setters join us later in the process if they choose to do so.
37. 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

38. We have asked the NSS volunteers to take part in this process by:
- (a) helping us identify the issues that should be included in the RFV 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 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 NSS's participation in those discussions. These discussions would take place principally during the comment period.
39. Following consultation with the participants, the timetable for this process has been extended to allow fuller 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 NSS issues after local review

40. Our initial consultation with NSS and others will form the basis of the questions included in the RFV about the effect of implementing IFRS 8.

Next steps

Phase B Investigating the issues identified

41. We plan to publish a Request for Views in June. At the same time we will undertake additional consultation, such as interviews and literature reviews of academic studies.
42. After we have presented an analysis of the comment letters and feedback from outreach activities to the Board, we will ask the Board to consider whether further investigative work needs to be done. At that stage, we will discuss with the NSS what further work should be done, if any, and how they can help in that process.
43. After the responses to the public RFV have been analysed, the Board will need to assess whether sufficient data has been received to continue with the PIR or whether it needs instead to postpone completion of the review until more data is available.

Phase C reporting

44. The final step in the planned process is Phase C: reporting. 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) Other, including where no change is considered necessary.

45. The reporting phase would be likely to be concluded in H1, 2013.

Time line

46. We intend to next update the Board at the May Board meeting. At that meeting we will present a paper that provides an outline of the RFV and includes, for the Board's approval and comment, a discussion of the issues identified for investigation.

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

Timing of review work performed	
Time period	Activities
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 RFV and issues to be investigated
June	Publish RFV
October	End of comment period
December	Preliminary findings to Board Board assess adequacy of data collected

Question 3

Do the Board have any comments on the approach proposed for the post-implementation review of IFRS 8?