

## STAFF PAPER

April 2013

## IASB Meeting

Project	Post-implementation review IFRS 8 <i>Operating Segments</i>		
Paper topic	Lessons learnt about the PIR process		
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**Purpose**

1. During 2012, the IASB conducted its post-implementation review (PIR) of IFRS 8 *Operating Statements*. The evidence-gathering phase of the PIR was completed in December 2012.
2. This paper summarises the feedback received on the PIR process itself together with the staff's analysis of how lessons learnt in conducting this PIR might affect our approach to subsequent PIRs. Preliminary findings from this feedback were presented to you in January 2013 as part of Agenda Paper 6 A *Comment letter analysis and summary of outreach conducted*.

**Questions for the IASB**

3. The analysis presented here will form part of your report on the PIR of IFRS 8. In this paper we are seeking feedback from the IASB as to whether:
  - (a) this paper has identified all of the key messages received about the post-implementation process?
  - (b) you agree with the conclusions drawn about the transferability to other PIRs of the messages received?
  - (c) you have any further comments about the PIR process for inclusion in the report?

## Structure of this paper

4. This paper is organised as follows:
  - (a) general approach to the PIR;
  - (b) evidence-gathering phase of the PIR;
  - (c) expected output from the PIR process;
  - (d) transferability of lessons learnt;
  - (e) staff summary; and
  - (f) effect of reviewing a converged Standard on the PIR process.

## General approach to the PIR

5. The review of IFRS 8 is the first such PIR undertaken by the IASB and, consequently, we have used this review to help develop and refine the IASB's approach to PIRs more generally. During Q1 of 2012 we consulted extensively on the methodology used in conducting PIRs. 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 feedback was also separately assessed by the Trustees and included in the *Due Process Handbook* issued in January 2013.

## Messages received about our general approach to the PIR

6. When conducting the PIR, we received feedback about three decisions that were taken in 2012 when developing the PIR process:
  - (a) extension of the scope;
  - (b) extension of the timing; and
  - (c) increase in transparency.
7. These decisions are discussed below.

### *Scope*

8. The IASB’s *Due Process Handbook* that was in use in 2012 described PIRs as being focused on “contentious issues and considerations of implementation issues and unexpected costs”. The consultations undertaken by the IASB during 2012 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 us from undertaking a broader review of a new requirement. Many stakeholders 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? A few warned that it may be difficult to restrict the PIR to an evaluation of the implementation of the Standard.
9. The Trustees acknowledged that the scope of the PIR could be broadened to explore whether the Standard had also achieved an overall objective of improving financial reporting and included this requirement in the *Due Process Handbook* issued in February 2013:

The goal of improving financial reporting underlies any new Standard. A PIR is an opportunity to assess the effect of the new requirements on investors, preparers and auditors. The review must consider the issues that were important or contentious during the development of the publication (which should be identifiable from the Basis for Conclusions, Project Summary, Feedback Statement and Effect Analysis of the relevant Standard), as well as issues that have come to the attention of the IASB after the document was published. The IASB and the technical staff also consult the wider IFRS community to help the IASB identify areas where possible unexpected costs or implementation problems were encountered.

10. Almost all commentators agreed with the broader scope of the PIR and welcomed the ability to comment on all aspects of the Standard.

### *Timing*

11. Participants in the planning phase expressed differing views on the timing of PIRs. A general view is that when assessing the Standard’s effect, two years after the effective date is too early because insufficient financial reporting will have occurred before the PIR takes place. Others thought that two years would be too late because many would have forgotten the implementation processes or difficulties involved. A common suggestion was for 3-5 years. The Trustees

decided to begin the review two years from the date of global application which, allowing for the different reporting dates around the world, is closer in practice to three years after the effective date. The effective date of IFRS 8 was 1 January 2009 so the PIR of IFRS 8 began 3½ years after the effective date or about three years after global application.

12. After we gathered evidence about the effect of implementing IFRS 8, we found that most participants thought the time frame was about right, although a few were concerned that preparers would have forgotten any practical problems that arose on implementation.
13. Some were concerned that little research had been undertaken about what effect the Standard had had on capital markets. There were a number of studies that analysed data extracted from published financial statements, but studies that tried to link changes in segment reporting with changes in analysts' forecast accuracy and dispersion were more limited. Some attributed this to there having been too few reporting cycles on which to calculate this information since the implementation of IFRS 8.
14. Some suggested that when the IASB issues a Standard it should record contentious issues in order that academics can identify at an early stage areas where research is required. We note that this function will usually be fulfilled by the effects analysis that is published when a new Standard is issued, but that this information was not available for IFRS 8, which pre-dates the effect analysis process.
15. Others suggest that we should maintain a list of topics that we would like to have researched and add research requests that are relevant to each topic to this list on completion of the IASB's redeliberations.

### *Transparency*

16. When we began planning the PIR of IFRS 8 at the beginning of 2012, we received feedback that the investigation process planned 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. The Trustees

decided, therefore, that the investigation of the issues should be carried out principally through a transparent public comment letter process.

17. This use of public consultation was widely supported. Most participants think that it facilitates a wider discussion of issues raised because participants are able to add to each others' discussions. It also provides a clear link between the IASB's conclusions and the evidence on which those conclusions are based.
18. A few participants preferred a more confidential approach. In particular, some preparers, auditors and regulators were unwilling to submit written accounts of weaknesses in financial statements that arose as a result of any teething-problems when the Standard was first implemented. General reference was made in many cases to practical difficulties in identifying the CODM or agreeing the aggregation process, but without 'naming names'. Information was collected from these sources through private interviews and conference calls, or collated locally by national and regional standard-setters, to ensure that those concerned were adequately represented.

#### *Other general comments*

19. Participants also raised two general points about the review of IFRS 8:
  - (a) Many jurisdictions reported that there were few changes to financial reporting as a result of implementing IFRS 8 because many entities had already aligned their reporting with IAS 14. Consequently, in these jurisdictions there was only limited local interest in the PIR process, especially among preparers.
  - (b) Many participants emphasised that throughout the PIR process we needed to distinguish between enforcement issues and a lack of clarity in the Standard.

### **Evidence-gathering phase of the PIR**

20. In mid-2012 the PIR process of IFRS 8 entered the evidence-gathering phase. The PIR process is designed so that we gather evidence from which the IASB can draw conclusions about the effect of implementing IFRS 8. There were three principal sources of this evidence:

- (a) public consultation through a Request for Information;
  - (b) outreach conducted; and
  - (c) a review of existing literature and academic research.
21. Some participants in the PIR reported general concerns about evidence-gathering:
- (a) Some noted that participants are more likely to respond if concerned about, or dissatisfied with, the Standard. Consequently, there may always be an element in a public consultation process towards over-reporting issues. In their view, few participants would take part just to report that all was working well.
  - (b) Some participants think that many of the implementation issues were transitional, for example the identification of the CODM. These participants think that responses to the consultation process would therefore be reduced because there are few ongoing issues. From the perspective of the IASB, however, we need to know about problems that arise on transition in order to support first-time adopters and to ensure that such problems are adequately identified in order to facilitate their correction. We emphasised the importance of practical issues that arise on transition in our initial consultation, and especially with national and regional standard-setters, in order to capture issues that are specific to transition.
22. In addition to these general comments, we received comments and suggestions about the three different sources of data in the evidence-gathering phase:
- (a) public consultation through a request for information;
  - (b) outreach conducted; and
  - (c) the review of existing literature and academic research.

***Public consultation through a request for information***

23. A principal source of input to the PIR process was the information received in response to the IASB’s request for information *Post-implementation Review: IFRS 8 Operating Segments* (the RFI). The RFI was published for public

comment in July 2012; the comment period ended on 16 November 2012. We received 62 comment letters in response to the RFI.

24. Most participants liked the format of the RFI, which is based on a limited number of open questions—they think that this format will provide more relevant answers. These participants appreciate a broader approach that allows them to suggest improvements as well as commenting on whether the Standard worked as intended. A few participants said that they would prefer a wider range of specific questions or even a questionnaire. This is very much a minority view.

#### *Additional guidance for preparers and investors*

25. Participants frequently referred to the wording of the questions in the RFI where each question was followed by suggestions of the type of issues that investors or preparers might want to comment on. These suggestions were included to help investors and preparers, who we thought would be unfamiliar with the PIR process, to take part in the consultation process. We thought that auditors, regulators and standard-setters would be more comfortable contributing to the RFI response because they are more familiar with our public consultation processes and had been more heavily involved in developing the PIR process.
26. Some participants were concerned, however, that this wording made it seem that the IASB is not interested in information from groups other than investors and preparers. This was an unintended consequence of including additional guidance for investors and preparers and should be borne in mind when planning future RFIs.

#### ***Outreach conducted***

27. Some national and regional standard-setters noted difficulties in engaging equally with all types of interested parties. They suggested that this should be taken into account when planning future PIRs. Some suggested it was difficult to engage with preparers in particular and that this was due to their overall satisfaction with IFRS 8.

#### *Locally facilitated outreach*

28. We attended a number of public discussion forums organised by local or regional standard-setters, regulators or other institutions. These forums helped to ensure

that we engaged with a wide range of participants. The forums generally included a cross-section of all types of participants, including preparers and local accounting firms. We also took part in discussion forums by video, for example with Asia and Oceania, to ensure global coverage. We would like to thank the bodies who facilitated our outreach as well as those who took part in the events.

#### *Consultation with investors*

29. Investors and financial analysts are primary users of segment information and were therefore important sources of input to the PIR process. Historically, investors are under-represented in the comment letter process. Consequently, investors were also consulted through extensive outreach.
30. In addition, information about investors' views has been strengthened in this PIR by including the results of investor surveys and investor-led research (such as those of the CFA Society of the UK, the CFA Institute and la Société Française des Analystes Financiers (SFAF)) in our literature review.

#### *Staff recommendation*

31. We recommend that similar efforts should be made in subsequent PIRs to ensure that we adequately engage with all types of participants and in all geographical regions.

### ***Review of existing literature and academic research***

32. As part of the PIR process, a review was conducted of academic research and available literature. The findings of a preliminary literature review were reported to the IASB in May 2012. This review was updated to December 2012 and presented to the IASB at its meeting in January 2013 as Agenda Papers 6 B *Review of academic literature to December 2012* and 6 C *Appendices: summary of relevant literature to December 2012*. Many respondents were interested in this review and encouraged the IASB to use third-party research more frequently.

#### *Timing*

33. A few commentators thought that the research was conducted too soon after implementation of the Standard and consequently that there was not enough data



to test whether IFRS 8 had improved investors' ability to predict cash flows. [See also paragraph 13.]

## **Expected output from the PIR process**

### ***Participants' expectations***

34. This is the first PIR that we have conducted and at its inception neither we nor the participants knew what the outcome of the PIR would be. There is no presumption that a PIR will lead to any changes to an IFRS. Throughout this process, therefore, we have been aware that it is important that we should manage expectations. We have made it clear throughout this process that any issues identified in the PIR for assessment will be assessed in accordance with the IASB's agenda-setting criteria and that those issues would be in competition with other topics identified for the IASB's attention.
35. Because the outcome is uncertain until the investigations are made, a few respondents think they could provide more relevant comment letters if the intended outcome of the PIR process were decided in advance. In their view the IASB should, at the initiation of a PIR, make clear the scope of the issues to be considered and the level of amendments to the Standard that might arise. Some suggested that participation in the process was less likely if participants were uncertain what future changes are likely to arise from the PIR process.
36. In our view, it would be difficult to identify potential outcomes before the investigations are made. We are concerned that defining what issues are to be investigated, and their expected outcome, before conducting the PIR would prevent some issues that had not been identified at the planning stage from being considered during the PIR. We think that the current, more open, approach is the most likely to bring any issues to the IASB's attention and that participants' uncertainty about the outcome should continue to be managed throughout the PIR process.

**Completion of the PIR**

37. Some participants think that the IASB's effects analysis and PIR report should include a work plan that identifies proposed amendments to the Standard under review; a proposed solution to any issues raised and an indication of the time scale involved. We think that this assessment is outside the PIR process.
38. We think that the PIR ends after the IASB has received sufficient information to ensure the identification of the aspects of the Standard that warrant further assessment. We do not think that the IASB's report of its findings should include the assessment of which issues should be added to its agenda nor should it recommend an approach to resolve those issues. The evidence received as part of the PIR process will, nonetheless, provide a valuable source of input if and when any such issues are subsequently assessed against our agenda-setting priorities.

**Transferability of lessons learnt**

39. The messages received about the PIR process were generally very positive. We record these messages below analysed between:
- (a) messages likely to be relevant to the conduct of all PIRs;
  - (b) messages specific to the PIR of IFRS 8; and
  - (c) aspects of the PIR process that should be tailored to the Standard under review.

**Messages likely to be relevant to the conduct of all PIRs**

40. We think that some messages received during the PIR of IFRS 8 will apply to any PIR process:
- (a) Participants welcomed the broader scope now required by the Trustees.
  - (b) In conducting any PIR we should try to distinguish between information about problems that are inherent in the Standard and those that arise from diversity in enforcement.

- (c) Our constituents value transparency over confidentiality. In most commentators' views, transparency is needed to justify the PIR process as a whole and to validate the IASB's conclusions.
- (d) Constituents are more likely to respond if they had encountered problems when implementing the Standard. There will inevitably be an element of 'over-reporting' of issues in a public process compared with a targeted survey.
- (e) On-going difficulties will be remembered and reported by stakeholders, but some issues that arose solely on transition may be forgotten because of the time lag between issuing the Standard and conducting the PIR. Special efforts are required to ensure that one-off issues on transition are captured.

### ***Messages specific to the PIR of IFRS 8***

41. Other messages are likely to be specific to the PIR of IFRS 8:
- (a) Many entities in some jurisdictions reported no change in financial reporting on implementing IFRS 8. This is principally due to the internal reporting of many entities having been modelled on the form previously used in the financials statements. We also think this lack of change may be because IFRS 8 principally deals with disclosure and does not affect recognition and presentation or, in many cases, measurement. Other Standards are more likely to affect all aspects of financial reporting and consequently could have a greater effect on financial reporting than did IFRS 8.

### ***Aspects of the PIR process that should be tailored to the Standard under review***

42. There are some areas for which the approach adopted worked well for the PIR of IFRS 8, but that might need to be modified when the PIR of another Standard is undertaken. In our view, the following aspects of the PIR process may need to be separately assessed when each individual PIR is planned:
- (a) timing

- (b) engagement with participants
- (c) management of expectations; and
- (d) special factors relating to converged standards (see paragraphs 51-59).

*Timing*

43. We think that the timescale required by the *Due Process Handbook*- two years from the date of global application- worked well in the PIR of IFRS 8. Participants could remember the implementation process and sufficient time had passed for their to be a good level of experience of applying the standard, an adequate history of financial reporting and a number of academic studies available.
44. However, when planning the timing of PIRs of other Standards, the timing may need to be reassessed, for example, if:
- (a) the type of transaction to which the reviewed Standard relates did not occur frequently during the proposed time period;
  - (b) endorsement had been delayed in a number of jurisdictions; or
  - (c) concerns on implementation were at a sufficiently high level to warrant an earlier response.

*Engagement with participants*

45. In the PIR of IFRS 8 we sought to engage actively with all types of participants and across all geographical regions. In some cases, preparers were reluctant to engage in the PIR process, often because they thought that IFRS 8 worked well or because segment reporting had not been changed by the application of the Standard. We also took special efforts to engage with investors who may be under-represented in public consultation.
46. We recommend that when each PIR is planned;
- (a) The population most affected by the application of the Standard is identified; and
  - (b) A consultation and outreach plan is prepared to ensure that we engage with all types of participants and across all geographical areas.

### *Management of expectations*

47. Many of the problems that we encountered in this PIR in managing participants' expectations arose because this was the first PIR that we have conducted. Participants in future PIRs will have the IASB's report on the PIR of IFRS 8 to refer to when contemplating the outcome of subsequent PIRs. Having said that, care should be taken when each PIR is initiated to make it clear that there is no presumption that a PIR will lead to any changes to an IFRS and any issues identified will be assessed in accordance with our agenda-setting criteria.

### **Conclusion**

48. In our view, the PIR process applied to IFRS 8 worked well in practice, but the best approach to adopt for some aspects of a PIR will depend on the Standard being reviewed and on what the IASB knows about that Standard. We think that the initial assessment and public consultation phase of the PIR, as described in the *Due Process Handbook* issued in January 2013, is sufficiently flexible to ensure that each aspect of the PIR can be tailored to the individual Standard when its PIR is planned.

### **Staff summary**

49. All participants supported the IASB's PIR initiative. Participants think that the PIR process provides an opportunity to assess the effect of the Standard on all types of stakeholders. Most participants think this process is a positive step towards ensuring consistent and high quality reporting and facilitating a global acceptance of IFRSs. In most participants' view PIRs are essential to ensure the Standards achieve their objectives and are operational in a range of jurisdictions.
50. We think that the information received about the PIR process confirms that the approach worked well for the PIR of IFRS 8. Consequently, we do not recommend that the IASB should make any changes to its procedures for conducting a PIR at this stage, but we recommend that the effectiveness of the PIR process should continue to be monitored whenever future PIRs are conducted.

**Question 1**

1. Do you:

- (a) think that we have identified all the key messages received about the post-implementation process;
- (b) agree with the conclusions drawn about the transferability to other PIRs of the messages received;
- (c) have any further comments about the PIR process for inclusion in the report?

**Effect of reviewing a converged Standard on the PIR process**

51. The stated objective of IFRS 8 was to achieve convergence with the requirements of FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131). IFRS 8 is substantially converged with the requirements of SFAS 131, except for a few minor differences.
52. In December 2012 the FAF completed its PIR of SFAS 131. The review of SFAS 131 was undertaken by an independent FAF team working under the oversight of the FAF Board of trustees. FAF's formal report was issued on 14 January 2013 and the FASB's reply to the FAF report was issued in February 2013.
53. Our PIR process is very different from that of the FAF and our approach to resolving any issues referred to us by our constituents is also likely to be very different. When the subject of the PIR is a converged Standard this adds complexity to both the conduct of the PIR and to the potential outcomes that follow from the PIR.

**Effect on the conduct of the PIR**

54. The PIR of IFRS 8 was not conducted jointly with the FASB or FAF. Although the two standards under review are converged, except in a few respects, the PIR processes themselves have a number of differences as they relate to this Standard:

	<b>IASB</b>	<b>US GAAP</b>
Responsibility for the review	IASB	FAF
Objective of the post-implementation review	Objective is to assess effect of application of the Standard.	Objective is to assess whether the Standard achieved its purpose.
Performance	Performed by IASB staff with assistance from interested parties.	Performed by FAF staff and third parties.
Time of review from effective date	2-3 years	15 years
Transparency	Public RFI and IASB outreach. Comment letters posted to website. Discussion of findings in public IASB meetings.	Stakeholder input is not public. Their identity is anonymous, even to the FASB. A report summarizing findings and conclusions is posted to FAF/FASB website

55. Because of these differences, the PIRs of IFRS 8 and SFAS 131 were conducted separately, although staff of the IASB and the FAF did liaise throughout the process. In particular, we wanted to ensure that we would not inconvenience participants and duplicate PIR contacts. We wanted to avoid burdening our respective constituents with ‘consultation overload’. Our conclusion was that very few organisations would be subject to both PIR processes.

***Effect on the outcome of the PIR process***

56. The IASB’s assessment process of the need for any improvements to a Standard will be complex when that standard is a converged one. In particular, our assessment may not be the same as that of the FAF and will be affected by:

- (a) whether the IASB and the FAF have identified the same issues;
- (b) whether the IASB and FASB have ascribed the same priorities to those issues;
- (c) what form any amendment could take (annual improvement; narrow-focus amendment) and how our two due processes compare in these approaches; and
- (d) what form of additional guidance or action would most help our respective constituents.

57. The PIR findings may indicate that amendments are needed to a Standard or that a separate technical project should be created. A key assessment will then have to be made as to what level of convergence is desirable between the two standards

post-PIR and the best way in which that level of post-PIR convergence can be achieved.

58. The FASB have stated in their response to the FAF's report that:

We will discuss the Report's findings in detail with the FAF PIR team and with the IASB staff to coordinate an evaluation of the issues in an attempt to maintain a converged approach to segment reporting. We will weigh the desire to remain converged with the FASB's other priorities and the demands on our resources.

59. Our assumption is that any steps taken by the IASB as a consequence of its PIR should be taken in consultation with the FASB. We should aim as far as possible to preserve converged IFRS and US GAAP requirements. It may be that the IASB or FASB decides to take steps that create differences between the requirements, but this step should only be taken after each board has had the opportunity to review any proposals.

#### Question 2

2. Do you agree that the development of any changes to a converged Standard, proposed as a result of a PIR, should include active liaison with the FASB?