

June 2013

International Financial Reporting Standards

Post-implementation reviews

Advisory Council

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Post-implementation reviews

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- The IASB reviews each new IFRS or major amendment
- Original scope
 - important or contentious issues identified during development of the standard, or subsequently
 - unexpected costs or implementation problems encountered
- Process significantly revised by Trustees in 2012
 - scope extended to gather evidence about all aspects of implementing the standard
 - public consultation through a *Request for Information*
- The post-implementation review of IFRS 8 was the first – *Report and Feedback Statement* expected later in June

Expected effect of implementing IFRS 8

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- IFRS 8 is based on the management perspective
- The segments identified and line items reported are those used by the CODM in making decisions
- Expected benefits were:
 - better understanding of the business
 - fewer single-segment companies
 - easier, so more information at interims
 - same basis as US
- Concerns expressed about:
 - lack of comparability between companies
 - lack of geographical analyses

Methodology used for the first PIR

- An evidence-based review with input from:
 - public consultation
 - outreach conducted
 - review of available literature
- In April 2013, the IASB assessed whether the evidence collected was:
 - balanced with respect to types of participants and geographical regions
 - sufficient to form the basis of its report
- Confirmed information was sufficient and authorised preparation of the *Report and Feedback Statement*

Messages received about segmentation

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- Segment information is key
- Some companies didn't change - their internal reporting was already the same as financial reporting
- When commentary, segment analysis and investor presentations agree, provides validation of all three
- But differing segments in different types of reports causes concerns for both regulators and investors
- Identification of CODM and application of aggregation guidance can be difficult

Messages received about line items

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- Definitions of reported operating results vary:
 - one European study showed 15 different definitions of operating result, eg EBITDA, in common use
 - results adjusted for exceptional transactions, especially expenses, are also common.
- Some found reconciliations provided are difficult to follow
 - many investors would like adjusting items (such as depreciation) reported by segments
- Some key line items are not reported eg capital expenditure; operating cash flow.



Review of academic research

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- Fewer single-segment entities
- No change in the number of reported segments for most companies . Where number did change, number of segments generally increased.
- Number of some key reported lines, eg capex and liabilities, decreased
- Mixed evidence about whether geographical disclosures are adequate

What have we learnt from the first PIR?

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- Revised process well received
 - all agreed with broader scope
 - public consultation widely supported
 - constituents value transparency
- IFRS 3 will be the next
 - IFRS 3 was amended in 2008
 - but we will consult on whole Standard, not just amendments
 - same approach
 - some tailoring, especially to target those affected
 - preparation work has commenced

Using PIRs to meet our objectives

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How do PIRs help us meet our objectives?

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- Develop high quality Standards
 - a review of the effectiveness of the Standard
- Promote the use of those standards
 - identifying, and remedying, implementation issues helps first-time adopters
- Promote vigorous application
 - provides evidence about application
 - allows us to distinguish between faults in the Standard and diversity in implementation practices
- Takes account of diverse entities and economic settings

Coordinating PIRs of converged Standards

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Objectives and methodologies differ

IASB

- Objective is to assess effect of application of the standard
- Performed by IASB staff, assisted by constituents
- Input to the review carried out in the public domain; subject to public scrutiny

FASB

- Objective includes effectiveness of the standard-setting process
- Performed by Trustees' staff and third party consultants
- All data collected in confidence

Will our findings be the same?

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- Did we and the FAF identify the same issues?
 - our constituents may have different starting points against which to gauge the effect of implementation
 - our process provides greater detail about issues identified
- Have we ascribed the same priorities to the issues identified?
 - how do our agenda-setting criteria compare?
 - availability of resources

Will we tackle issues in the same way?

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- A proposal for a major revision of a Standard would be considered in line with our triennial agenda consultation process
- What form could focused amendments take?
 - we have a range of tools, including interpretations, annual improvements and narrow-focus amendments
 - we could ask the Interpretations Committee to assist
- What form of action or additional guidance would most help our respective constituents?

Commitment to maintaining convergence

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In their response to the FAF's report on operating segments, the FASB state:

We will discuss the Report's findings in detail with the FAF's 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.

We continue to liaise with the FAF staff and the FASB staff and will discuss our responses to the review process.



Where to go for more information

- Project page on the IFRS website:
 - <http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/IFRS-8/Pages/IFRS-8.aspx>
- Contacts:
 - Michael Stewart: Director of Implementation Activities (mstewart@ifrs.org)
 - **IFRS 8** April Pitman: Senior Technical Manager (apitman@ifrs.org)
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