

## STAFF PAPER

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IFRS Advisory Council

<b>Project</b>	<b>Post-implementation Reviews</b>		
<b>Paper topic</b>	Discussion of feedback received on Post-implementation Reviews		
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## Introduction

1. The purpose of this paper is to ask for the IFRS Advisory Council's advice on strategic aspects of our Post-implementation Reviews ('PIRs').
2. The specific areas on which we are seeking the Advisory Council's advice are:
  - (a) The objectives of a Post-implementation Review;
  - (b) The interaction of PIRs with the Board's research and Standard-setting agendas.
  - (c) The timing of PIRs; and
  - (d) IFRS Standards/US GAAP convergence considerations for PIRs.

## Background

3. We have completed two PIRs (IFRS 8 *Operating Segments* and IFRS 3 *Business Combinations*). In the next few months we are scheduled to start PIRs of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*.
4. Respondents to the Trustees' Structure and Effectiveness Review (Trustees' Review) and the Board's Agenda Consultation provided comments on the Board's PIRs, some

of which related to the strategic areas discussed in this paper. In December 2015 the Accounting Standards Advisory Forum (ASAF) discussed the objectives of PIRs (as well as discussing the process followed). We have included a summary of that input in this paper to inform the Advisory Council's discussion.

5. The Trustees, in their *Request for Views* published for their Review, note that they intend to undertake a review of the PIR process after the International Accounting Standards Board (the Board) has gained further experience from conducting a number of PIRs, however, we thought this moment was a good opportunity to take stock of our experience with the first two PIRs before we start the next ones.

### **PIR objective and timing**

6. The *Due Process Handbook* explains that a PIR is an opportunity to assess the effect of the new requirements of an IFRS Standard on investors, preparers and auditors. In undertaking this review we are required to:
  - (a) consider important or contentious issues in the development of the Standard;
  - (b) consider issues that have come to the Board's attention since publication; and
  - (c) identify areas where unexpected costs or implementation problems were encountered.
7. The *Due Process Handbook* requires the PIR to include a formal public consultation, seeking feedback on the matters identified by the Board in its preliminary assessment. At the end of the PIR, the Board is required to publish its findings and the steps that it plans to take (if any) in response.
8. The *Due Process Handbook* notes that a PIR normally begins after the Standard has been implemented for two years internationally. The *Due Process Handbook* allows the Board to defer a PIR if its initial assessment leads it to conclude that it would be premature to undertake the review at that time.

## Summary of comments received from the recent consultations

9. The comments received about PIRs from the Trustees' Review and the Board's Agenda Consultation included comments relating to the objectives of PIRs and the interaction of PIRs with the Board's research and Standard-setting agendas.
10. The use of PIRs was welcomed by a number of respondents who commented that PIRs have an important role in the Standard-setting process and are a useful tool for the Board to be aware of both the implementation issues of a Standard and the topics that could be further investigated. Some respondents commented on how a PIR is a useful way of gathering evidence for the Board's evidence-informed standard-setting.
11. A number of respondents went on to comment, however, that PIRs should be extended to older Standards; some commented that all existing Standards should be reviewed, while others thought that the Standards that generate significant numbers of issues for the IFRS Interpretations Committee should be the basis for initiating a PIR of an older Standard. One respondent went further, proposing that when a large number of application issues have been identified for an older Standard, a PIR (or similar review) should be mandatory for that Standard.
12. Other comments received cautioned the Board against automatically proceeding with a full PIR, but instead assessing the need for one. One such respondent suggested that PIR activity should be included as part of, or linked to, an active research project.
13. A number of respondents commented on the interaction of the PIR with the Board's research and Standard-setting agendas. While some respondents commented on the evidence obtained through a PIR being useful for informing a research project, several commented that when a PIR provides sufficiently conclusive evidence about an issue, then the results of the PIR should move directly to a Standard-setting project. Other comments received included a concern that adding the results of a PIR to a research project might not result in timely enough resolution of the more significant issues identified, and another comment expressed the concern that the Board should not wait for the results of its three-yearly agenda consultation before adding a project to its agenda in response to the findings of a PIR. Another respondent commented that the Board should decide on whether a specific aspect needs to be explored in a research project depending on the results of the PIR.

14. Some respondents commented on the focus of the PIR. Some of these comments noted that the PIR should focus on how the principles in the Standard are applied in practice, with an emphasis on application issues that had not been expected to arise, rather than reopening the debate about the principles and going back to basics. Other respondents expressed satisfaction with the current focus; the *Due Process Handbook* requires that the review considers the issues that were important or contentious during the development of the Standard, as well as issues that have come to the Board's attention subsequently.
15. One respondent commented that the PIR should additionally assess the quality of the Standard and its effects, as well as evaluating the nature of any application and implementation issues.
16. A number of respondents provided views on the timing of PIRs; the Trustees had expressed an interest in learning about whether two years of experience with implementation is sufficient for an effective PIR to be carried out. Respondents expressed mixed views. Some supported two years – one of these explained that two years is a reasonable balance to ensure sufficient implementation experience and addressing deficiencies on a timely basis. Others thought that more experience of applying the Standard is needed, with several mentioning at least three years of experience.
17. Several of those responding on the timing of PIRs, whether in support of two years, or in support of a longer period of experience, noted the importance of the nature and complexity of the Standard in determining the timing. Several respondents thought that more time should be allowed before starting the PIR of a more complex Standard. Some respondents also highlighted the importance of the Board accelerating the timing of the PIR if implementation issues are arising across many areas of the Standard.
18. Many respondents to the Board's Agenda Consultation provided comments on convergence of IFRS Standards and US GAAP. Almost all of these respondents emphasised the importance of ongoing cooperation between the Board and the US standard setter, the Financial Accounting Standards Board (FASB), in order to maintain the convergence achieved so far. Some of these comments referred to the Board's follow-up work on the PIR of IFRS 3 and the importance of the two boards

collaborating in that follow-up work in order to maintain convergence as much as possible. Some respondents thought that joint discussions between the two boards would be needed on ongoing maintenance and implementation projects in order to achieve this.

19. Some respondents requested clarity on the Board's policy with respect to converged Standards and how it will interact with FASB.

### **Summary of comments received from the ASAF**

20. The ASAF discussed the PIR process at its meeting in December. In addition to commenting on the process, some ASAF members provided comments on strategic aspects of PIRs.
21. A number of ASAF members commented that older Standards should be reviewed, not merely new Standards. The nature and level of issues submitted to the Interpretations Committee was noted as being a good basis for determining whether an older Standard should be reviewed.
22. Some ASAF members thought that the PIR should not focus on issues that were contentious when the Standard was developed, but should instead focus on how the Standard is working in practice, including consideration of consistency of application. One ASAF member suggested that the PIR should consider whether the Board had achieved its intended objective with the Standard, and another suggested that the PIR should also consider what lessons can be learned for other projects.
23. Many ASAF members thought that a period of more than two years was needed after the effective date before a PIR is conducted, with some noting that the length of time would depend on the Standard. The time periods suggested by ASAF members ranged from 3 years to 10 years, but with a balance of views around 5 years after the effective date. One ASAF member suggested that a second PIR could be conducted at a later date, if it was too soon to look at some issues when the PIR is initially conducted. Another ASAF member suggested that if there are no indications of issues with a Standard, then the board should consider asking in an Agenda Consultation whether a PIR is needed at all.

## Staff reflection on feedback received

### ***Review of older Standards***

24. We received several comments urging the Board to conduct PIRs of older Standards, not just new Standards. Those comments ranged from requests for reviews of Standards that have generated a significant number of submissions to the Interpretations Committee to a request for all old Standards to be reviewed.
25. We note that the *Due Process Handbook* already envisages the Board undertaking a PIR of an older Standard in response to concerns being expressed about that Standard, for example by the Interpretations Committee. We also note that a PIR is an effective mechanism for undertaking a broad assessment of issues with a Standard. Consequently, when there is concern across a wide range of aspects of a Standard, for example based on submissions to the Interpretations Committee, then we think that a PIR would be an effective tool to help understand the full range of concerns.
26. However, in other circumstances, for example when one specific aspect of a Standard is giving cause for concern, then a more targeted approach by the Board is likely to be more effective. Consequently we think that the Board should conduct PIRs for older Standards, but only when there is concern across a wide range of aspects of a Standard; in other circumstances we think a more focussed review would be better. The decision about how to respond to concerns about a Standard should be made by the Board on the basis of its assessment of the nature of the concerns raised.

### ***Issue-driven rather than time-driven review of new Standards***

27. We received mixed views on whether PIRs should be undertaken after two years of international application or longer, however, the reasons expressed by the respondents shared a common basis, that is, the timing of the PIR should be influenced by the nature and complexity of the Standard, and the level and nature of the implementation issues experienced.
28. We also received comments that the Board should undertake PIRs of new Standards based on need, rather than as an automatic step. One such respondent suggested that the Board should conduct targeted outreach before committing resources to a PIR.

29. We think that the argument to conduct a PIR based on need, rather than after a fixed period of time, is persuasive and is also consistent with the Board's focus on evidence-informed Standard-setting. We think there are two ways in which we could reflect such a change:
- (a) initiate a PIR only when concerns about significant issues with a Standard have been raised with the Board, for example as a result of numerous submissions to the Interpretations Committee; or
  - (b) conduct the initial targeted outreach phase of a PIR after two/three years of application. The Board could then decide whether to proceed to the public outreach stage on the basis of the results of the targeted outreach.

### ***Interaction of the PIR with the Board's research and Standard-setting agendas***

30. Many respondents commented on how the results of the Board's PIRs feed into the research and Standard-setting agendas. The most common concern expressed was that the results of the PIR should move directly to a Standard-setting project, rather than lead to initiation of a research project.
31. We note that the results of the PIR on IFRS 8 led directly to a Standard-setting project. The results of the PIR on IFRS 3, however, led initially to two research projects for the issues identified as having higher significance. One of those projects – looking at the definition of a business – became a Standard-setting project after the Board's first follow-up discussion. The second of those projects – on goodwill and impairment – is still in the assessment stage because it is not yet sufficiently clear which problem – or package of problems – needs to be solved, nor is it yet sufficiently clear what the most promising way forward is. Pending the results of the Agenda Consultation, the Board has not yet taken a decision on the other issues identified in the PIR on IFRS 3, which were assessed as having lower significance.
32. We think that the actions taken by the Board in response to the findings of a PIR should depend on the nature of the results of the PIR. When the issues identified in a PIR are relatively narrow, and there would appear to be a fairly clear solution, then we agree that the Board has the information that it needs to decide whether to undertake a Standard-setting project. However, when the results of a PIR raise questions about a

fundamental principle within the Standard, and even if the concern has been well identified in the PIR, we think that the Board should not necessarily move directly to making a particular amendment on the basis that such an amendment has been widely called for. Instead, we think the Board should take care to ensure it has understood the underlying cause of the concerns and any broader cross-cutting issues that might not have been fully identified through the PIR. The Board might also need to consider whether there are other views that have not been captured by the PIR process, for example from stakeholders who did not respond to a particular aspect of a PIR because they were satisfied with the way that aspect of the Standard is operating.

### ***Objective of the PIR***

33. There were many comments noting the importance of PIRs to the Board, or expressing support for PIRs. There were a limited number of comments received calling for changes to the objectives of the PIR. The main comment raised was a suggestion that the PIR should focus on how the principles of the Standard are applied in practice, rather than reopening the debate about the principles.
34. We understand the suggestion made that we should not reopen the debate about the principles; for example, the issue of whether or not goodwill should be amortised attracted significant comment in the PIR on IFRS 3 and has led to a research project to consider further the issue. We note that focussing on issues that were contentious during development of the Standard was the focus originally identified for PIRs. When the application of a principle in a Standard produces results that give some stakeholders cause for concern, we think such concerns should be included in the review, and should not be excluded. We think that, in responding to the concerns identified in the PIR, the Board would be sensitive to the general desire among stakeholders for stability of the Standards, and would thus make only those changes that it thinks are needed, and that are proportionate, to those concerns.

### ***IFRS Standards/US GAAP convergence considerations for PIRs***

35. Many respondents to the Board's Agenda Consultation commented on the importance of maintaining the convergence achieved between IFRS Standards and US GAAP.



Some of these comments referred to the Board's follow-up work on the PIR of IFRS 3 and the importance that it and the FASB collaborate in their respective follow-up work on any common issues in order to maintain convergence as much as possible.

36. We note that the two PIRs that the Board has conducted so far, of IFRS 3 and IFRS 8, both related to converged Standards. There were common issues identified by each board in their respective PIRs on business combinations in relation to the accounting for, and disclosures of, goodwill and intangible assets.
37. We think that the boards' decision to coordinate their responses to their respective PIRs in relation to these common issues could serve as a model for future maintenance and implementation projects of converged Standards. The staffs of the two boards have been in regular dialogue to develop common proposals in relation to goodwill and intangible assets; although each board is holding separate initial discussions of those proposals, the two boards plan to have joint meetings to make decisions. We think that this approach provides a good chance of developing consistent amendments that will maintain the convergence already achieved.

## Questions for the Advisory Council

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1. What advice do the Advisory Council members have on the objectives of the PIR? Do Advisory Council members think that the PIR should automatically look at matters that had been contentious during the development of the Standard?
2. What advice do the Advisory Council members have on the review of older Standards? What criteria, if any, do Advisory Council members think that the Board should develop to identify whether to conduct a PIR for an older Standard?
3. What advice do Advisory Council members have on the timing of PIRs, that is, should reviews be conducted after two years of application, or later? Do Advisory Council members think that the Board should initiate a PIR only when significant concerns about a Standard have been raised with the Board, or decide whether to conduct the public outreach stage of a PIR on the basis of the results of the initial targeted outreach?
4. What advice do the Advisory Council members have on the interaction of the PIR with the Board's research and Standard-setting agendas? How do Advisory Council members think that the Board should respond to the findings of a PIR and how should the Board balance this with other demands for the Board's time?
5. What advice do the Advisory Council members have on how the Board should respond to the results of PIRs on Standards that are converged with US GAAP?