Post-implementation reviews—confirming a common understanding

Objective

1. Paragraphs 3.78 and 6.48 to 6.59 of the *Due Process Handbook* discuss post-implementation reviews (PIRs). However, there are different understandings among stakeholders, most notably about the objective and outcomes of a PIR. These different understandings have arisen because the International Accounting Standards Board (IASB) has only completed four PIRs since the process started and our description has evolved as we have learned.

2. The IASB will begin PIRs of the impairment requirements in IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* in H2 2022. Before starting these PIRs, we would like to confirm a common understanding of the objective and possible outcomes of PIRs. In this regard, we have clarified the description of PIRs in the Appendix, drawing on our experiences from previous PIRs and comments from some stakeholders.

3. We plan to include this description in Requests for Information on future PIRs to set expectations when asking stakeholders to provide feedback. We will also share this description on our website and at speaking engagements.

4. The Due Process Oversight Committee (DPOC) may also wish to consider revisions to the description of PIRs in the *Due Process Handbook*. We note that the DPOC plans to update the *Due Process Handbook* for the creation of the International Sustainability Standards Board (ISSB). This may be an opportunity to incorporate, subject to stakeholder feedback, the clarified description of PIRs into the *Due Process Handbook*, as the ISSB will also eventually conduct PIRs on its new standards.

**Question for DPOC**

Are you comfortable with the IASB using the description of PIRs in the Appendix in forthcoming PIRs?
### Background

5. **Agenda Paper 2B** for the DPOC’s May meeting (May paper) set out proposed improvements to the description of PIRs. At that meeting, DPOC members shared their views on the description, particularly focusing on the objective of PIRs. The following table sets out views shared by DPOC members and the staff’s response.

<table>
<thead>
<tr>
<th>DPOC members’ views</th>
<th>Staff’s response</th>
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<tbody>
<tr>
<td>(a) Some members questioned whether the clarifications in the May paper went beyond the requirements in the <em>Due Process Handbook</em>. One member advised that the staff determine what a PIR should be, rather than focusing on clarifying the current language in the <em>Due Process Handbook</em>.</td>
<td>(a) The Appendix reflects what we have learnt from previous PIRs and what we think objective and outcomes of PIRs should be. However, we think this is not inconsistent with existing <em>Due Process Handbook</em> requirements.</td>
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<td>(b) Some members said that the objective of PIRs in the May paper may be too restrictive, limiting opportunities to make meaningful improvements to IFRS Accounting Standards (Accounting Standards).</td>
<td>(b) A PIR is only one of the mechanisms used to continually improve Accounting Standards. To provide context to the role of PIRs, the Appendix describes the various mechanisms available to the IASB and stakeholders. The Appendix also highlights two purposes of PIRs – (i) an overall review of whether the new requirements are working as intended, considering their core objectives or principles (ie, ‘fatal flaws’) and (ii) identification of specific application questions that may warrant further action. Ultimately, the IASB and IFRS Interpretations Committee (Interpretations Committee) cannot address all matters raised because (i) there is limited capacity throughout the entire financial reporting ecosystem to engage in the standard-setting process and implement</td>
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<td><strong>DPOC members’ views</strong></td>
<td><strong>Staff’s response</strong></td>
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<td>change and (ii) we must balance the demand to address ‘old’ matters (from PIRs) with ‘new’ standard-setting projects identified in an agenda consultation. Therefore, to manage expectations and commitment of stakeholder resources (see paragraph 6(b)), the Appendix provides a prioritisation framework to signal the types of matters for which further action may be taken. This prioritisation framework may help stakeholders better identify which matters to raise in a PIR and better manage the resources they invest in the PIR process. We consulted with the Advisory Council on this prioritisation framework in January. Overall, most Advisory Council members agreed with the prioritisation approach. The paper for that meeting is available here and the staff analysis of Advisory Council feedback, presented to the IASB in January, is available in paragraphs 18-21 here.</td>
<td>(c) Some members had differing views about whether the purpose of a PIR should be to consider only new information. On one hand, a member observed that the IFRS Foundation is not infallible and should reconsider previous debates if there is stakeholder demand. On the other hand, a member observed that re-opening old debates without new information may not result in different outcomes and may divert resources from other activities. (c) Upon further reflection, we have removed the focus on ‘new information’ because: (i) it is confusing. A PIR examines the application of new requirements in practice after their issuance, compared to expectations at the time of issuance. This is, by definition, ‘new information’. (ii) we acknowledge that stakeholders are likely to raise matters that were important or</td>
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<td>DPOC members’ views</td>
<td>Staff’s response</td>
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<td>contentious during the development of the new requirements and we do not wish to preclude this.</td>
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<td>However, we would only take further action (eg, standard-setting) if:</td>
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<td>• the new requirements are not working as intended¹;</td>
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<td>• the matter has substantial consequences, is pervasive and can be addressed by the IASB or Interpretations Committee; and</td>
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<td>• the benefits of action are expected to outweigh the costs².</td>
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<td>This is because it would not be productive to significantly increase the resource demands to automatically take further action for every important or contentious matter considered during the original project.</td>
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<td>To that end, the Appendix focuses on a prioritisation framework, which, as noted above, is intended to signal the types of matters for which further action may be taken. In this way, the Appendix does not limit the matters raised in a PIR but intends to manage expectations about which</td>
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¹ There may be situations where the new requirements are working as intended, but stakeholders would like the IASB to further improve financial reporting. Such opportunities can be considered as part of the IASB’s agenda consultation, which provides a ‘blank sheet’ on which to recommend technical priorities.

² Paragraph 5.7 of the *Due Process Handbook*, states that ‘the [IASB] adds a project to the work plan only if it concludes that the benefits of the improvements to financial reporting will outweigh the costs’. These costs include the costs of change, as discussed in paragraph 3.79 of the *Due Process Handbook*. 
6. Since the May DPOC meeting, we also engaged in limited discussions with stakeholders. The following table sets out their feedback, which, like the DPOC, particularly focused on the objective of PIRs, and the staff’s response.

<table>
<thead>
<tr>
<th>Stakeholder feedback</th>
<th>Staff’s response</th>
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<tr>
<td>(a) Some stakeholders questioned whether the purpose of a PIR is only a fatal flaw review, noting that such an approach may be to the detriment of financial reporting in the long-term.</td>
<td>(a) A PIR is more than just a fatal flaw review; see paragraph 5(b).</td>
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<td>(b) Some stakeholders observed that PIRs require a significant resource investment from both stakeholders and the IASB. This level of investment may be disproportionate to the outcomes of PIRs.</td>
<td>(b) To manage expectations and commitment of stakeholder resources, the Appendix provides a prioritisation framework to signal the types of matters for which further action may be taken. This prioritisation framework may help stakeholders better identify which matters to raise in a PIR and better manage the resources they invest in the PIR process.</td>
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<tr>
<td>(c) Some stakeholders observed that there is a disconnect between past comments from the IASB, Interpretations Committee and staff, which suggested that consideration of some matters would be deferred until a PIR, and the outcome of those PIRs.</td>
<td>(c) We acknowledge that previous comments have created confusion. We expect that the description in the Appendix will (i) clarify the different ways in which matters can be raised prior to a PIR and (ii) manage expectations about which matters may warrant further action.</td>
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Appendix A

Context

1. After issuing a new IFRS Accounting Standard (Accounting Standards) or major amendment (new requirements), the International Accounting Standards Board (IASB) stands ready to act if evidence indicates a need for improvement. This evidence may arise from mechanisms such as discussions by Transition Resource Groups, if set up; submissions to the IFRS Interpretations Committee (Interpretations Committee); ongoing stakeholder engagement via both standing bodies (eg, CMAC and GPF) and general discussions (eg, with representatives from the large accounting firms and securities regulators); a post-implementation review (PIR) of each major new requirement; and the IASB’s five-yearly agenda consultation.

2. A PIR differs from the other mechanisms to raise matters with the IASB in that it provides:
   a. a planned opportunity to identify questions about the new requirements, compared to other mechanisms which may identify questions on an ad hoc basis at any time (both before and after PIRs).
   b. an opportunity to consider the new requirements in their entirety, compared to other mechanisms which may focus on specific aspects of the new requirements.

Objective

3. The objective of a PIR is to assess the effect of the new requirements on users of financial statements, preparers, auditors and regulators following the issuance and application of those requirements - that is, to assess whether the benefits and the costs (including financial and other costs, both initially and ongoing) are as expected by the IASB when it developed the new requirements.

4. A PIR includes consideration of how contentious matters that the IASB considered during development of the new requirements and market developments since those new requirements were issued are being addressed in practice.

5. A PIR concludes with a determination of whether:
   a. overall, the new requirements are working as intended. Fundamental questions (ie, ‘fatal flaws’) about the core objectives or principles – their clarity and suitability – would indicate that the new requirements are not working as intended.
   b. there are specific questions about application of the new requirements. Such questions would not necessarily prevent the IASB from concluding that the new requirements are operating as intended but may nonetheless need to be addressed, if they meet the criteria for whether the IASB would take further action (see Findings and their prioritisation).

6. PIRs can also identify improvements that should be made to the standard-setting process or the general structure of Accounting Standards.
7. A PIR is not a standard-setting project and does not automatically lead to standard-setting. It is also not intended to lead to the resolution of every application question.

The PIR process

Starting a PIR

8. The earliest a PIR starts is after the new requirements have been implemented for at least two years, which is generally about 30–36 months after the effective date.

9. The start date depends on the availability of information, such as:
   a. trend data from financial statements applying the new requirements;
   b. academic research; and
   c. the level of experience in practice (while balancing the risk that practice may become so embedded that resistance to improvements may develop), which may depend on the level of change arising from the new requirements.

Research

10. The PIR process consists of two phases. During both phases, the IASB reviews relevant academic research and other reports.
   a. Phase 1 - the IASB identifies matters to be examined, drawing on discussions with the Interpretations Committee, the IASB’s advisory groups and other interested parties. The IASB consults publicly on the matters identified in the first phase of the PIR.
   b. Phase 2 - the IASB considers the comments from the public consultation along with the information it has gathered from any additional analysis and other consultative activities.

Findings and their prioritisation

11. As part of phase 2, the IASB considers whether to take action on its findings. It takes action if there is evidence that:
   a. the objective of the new requirements is not being met;
   b. the benefits to users of financial statements of the information arising from applying the new requirements are significantly lower than expected (for example, there is significant diversity in application); or
   c. the costs of applying some or all of the new requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the new requirements were issued for which it is costly to apply the new requirements consistently).

12. The prioritisation of any action as high, medium or low would depend on the extent to which evidence gathered during the PIR indicates:
a. the finding has substantial consequences.
b. the finding is pervasive.
c. the finding arises from a financial reporting issue that can be addressed by the IASB or the Interpretations Committee.
d. the benefits of any action would be expected to outweigh the costs. To determine this, the IASB would consider the extent of disruption and operational costs from change and the importance of the finding to users of financial statements.

13. Depending on the above assessment:
   a. high priority findings would be addressed as soon as possible. This category is expected to be used only rarely, for those findings:
      i. that relate to the objective or core principle of a new requirement that may impair the IASB’s ability to conclude in the PIR that the new requirement is working as intended.
      ii. for which most of the prioritisation characteristics are present to a large extent, the benefits of any action are expected to exceed the costs and solutions are needed urgently.
   b. medium priority findings would be added to the IASB’s research pipeline or the Interpretations Committee’s pipeline. This category consists of those findings for which most of the prioritisation characteristics are present to a large extent and for which the benefits of any action are expected to exceed the costs. Pipeline projects are expected to become active before the next agenda consultation.
   c. low priority findings would be considered in the next agenda consultation and explored if the IASB decides, in its deliberations on the feedback to the agenda consultation, to take action. This category consists of those findings for which:
      i. some of the prioritisation characteristics are present to some extent; and
      ii. the remainder of the prioritisation characteristics are not met or there is insufficient information to conclude whether the characteristic is present.
   d. no action findings would not be explored unless stakeholders identify the findings as a priority in their feedback on a future agenda consultation and the IASB decides, in its deliberations on the feedback, to take action. This category consists of those findings for which few or none of the prioritisation characteristics are met.

**Outcomes**

14. Action may involve continued monitoring of a finding or some level of research by the IASB or the Interpretations Committee that may lead to a standard-setting project, an agenda decision or educational materials. The IASB may also conclude that no further action is needed.

**Reporting**

15. At the end of the PIR, the IASB publishes a Report and Feedback Statement summarising its findings and any actions it plans to take as a result of the PIR.