AASB Invitation to Comment

ITC 27
July 2012

Request for Comment on IASB Request for Information on Post-implementation Review: IFRS 8 *Operating Segments*

Comments to the AASB by 11 October 2012

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Invitation to Comment

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 11 October 2012. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 16 November 2012. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aasb.gov.au

Respondents to the IASB are asked to send their comments electronically to the IFRS Foundation website (www.ifrs.org), using the 'Comment on a proposal' page.

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Invitation to Comment

This AASB Invitation to Comment is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this AASB Invitation to Comment are available by contacting:

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Australian Accounting Standards Board
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Melbourne Victoria
AUSTRALIA

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AASB REQUEST FOR COMMENTS

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards, the AASB is inviting comments on any of the questions listed in the Invitation to Comment section of the attached IASB Request for Information.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 11 October 2012. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

In addition to this Request for Comments, the AASB will hold a workshop in Melbourne. The location and specific date will be detailed on the AASB's website at http://www.aasb.gov.au/News/Upcoming-events.aspx.

July 2012

Request for Information

Post-implementation Review: IFRS 8 Operating Segments

Comments to be received by 16 November 2012

IFRS™

Request for Information

Post-implementation Review:
IFRS 8 Operating Segments

July 2012

Published for comment by the
International Accounting Standards Board

Comments to be received by 16 November 2012

This Request for Information *Post-implementation Review: IFRS 8 Operating Segments* is published by the International Accounting Standards Board (IASB) for comment only. Comments on the Request for Information should be sent in writing so as to be received by **16 November 2012**. Respondents are asked to send their comments electronically to the IFRS Foundation website (www.ifrs.org) using the 'Open to Comments' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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Introduction

IFRS 8 *Operating Segments* is the first Standard of the International Accounting Standards Board (IASB) to be subject to a post-implementation review (PIR).

The requirement to do a PIR was added to the IASB's due process by the Trustees in 2007. The Trustees decided that it was important to review major new Standards, or significant amendments to existing Standards, two years after the Standard has been applied internationally. For the background and objectives of a PIR please see Appendix A.

The first phase of a PIR consists of an initial assessment of the issues related to the subject of the PIR, and consultation with interested parties about those issues. For the purposes of completing the first phase of the PIR on IFRS 8, we have:

- completed a broad-scope review of publicly available materials from accounting firms, regulators and investors to help establish the scope of this review;
- contacted accounting firms, investors and national standard-setters to inform them about the PIR process and to ask for their help;
- carried out a preliminary review of existing academic research and other literature; and
- collated a preliminary list of issues for investigation, based on information received from investors, the major accounting firms, national standard-setters, regional bodies and others.

All this has been done to identify the main questions that need to be answered before the IASB can assess the effect of applying IFRS 8.

This Request for Information (RFI) is the next step in this process. RFIs are formal requests by the IASB for information on a matter related to technical projects or broader consultation. This RFI will be used to gather the information from stakeholders that we will need to be able to assess the implementation of IFRS 8. This public consultation will permit everyone in the IFRS community to provide information for the review.

The process is an entirely open one—all comment letters received will be published on the IASB's website. We will also obtain information from workshops and individual interviews and by reviewing academic research on the effect on financial reporting of applying IFRS 8.

This is the first PIR that we have conducted. When we have completed the PIR, we could conclude that we should:

- continue to monitor the implementation of IFRS 8, if the results of the PIR are inconclusive;
- retain IFRS 8 as issued, if no significant problems are identified by the PIR; or
- revise IFRS 8 to remedy any problems identified by the PIR.

Depending on the nature of any findings, revisions could be made through the Annual Improvement process or as a narrow-scope amendment to IFRS 8. Identifying severe problems would indicate that the IASB should consider a proposal for a standards-level project to reassess how we disclose information about operating segments. This proposal process would include an assessment of the priority that should be ascribed to this topic compared with that of other topics to be considered by the IASB.

At this stage, we cannot predict what the outcome of the PIR process will be. The IASB could determine that no further action is required.

The questions we are asking about the application of IFRS 8 are on pages 11–18. To put these questions into context, we have provided the background to IFRS 8 on pages 6–9.

Background to IFRS 8 *Operating Segments*

The core principle of IFRS 8 states that:

> ... an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Convergence with US GAAP

The project to develop IFRS 8 was added to the IASB'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 the differences between IFRS and US GAAP that were capable of resolution in a relatively short time and that could be addressed outside of the major projects.

As part of the project, the IASB identified the differences between the existing Standard IAS 14 *Segment Reporting*, and the FASB Standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. The IASB also reviewed academic research findings on segment reporting and held meetings with users of financial statements.

IAS 14 and SFAS 131 differed in three main respects:

(a) *Identification of segments*: IAS 14 required segments to be identified on the basis of differences in the risks and returns of either the products and services provided (a 'business segment approach') or the economic environments in which the company operated (a 'geographical segment approach'). SFAS 131 requires operations to be reported '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.

(c) *Reported line items*: IAS 14 required a company to disclose specific line items for each reported segment. SFAS 131 required a company to report only those line items that are regularly reported to the CODM.

These main differences between SFAS 131 and IAS 14 are summarised in the table below:

	SFAS 131	**IAS 14**
Basis on which reportable segments are identified	Segments operations by internal reporting used by the CODM in allocating resources.	Segments operations by the goods and services provided to customers or by geographical region.
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 IFRSs.
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.

The composition of the membership of the IASB changes over time and has substantially changed since IFRS 8 was issued in 2006. Throughout this RFI we use 'the IASB' and 'we' to mean the collective expression of the views of members of the IASB at any given time. In reaching the conclusions in IFRS 8 individual members of the IASB gave greater weight to some factors than to others.

Why we chose the management-perspective approach

When we developed IFRS 8 we thought that allowing investors and other users of financial statements to see the company's operations through the eyes of management ('the management-perspective approach') would enable investors to understand the risks that management face each day and to assess how well those risks are managed.

Our assessment in those deliberations was that, given that all of the operating segment information required by IFRS 8 would already be available by using the existing internal reporting systems and processes, preparers would benefit from the application of IFRS 8. Consequently, our view was that IFRS 8 could be implemented without incurring significant additional expense and that recurring reporting expenses would be reduced.

Public consultation 2006

When we developed the IFRS 8 Exposure Draft, *Operating Segments*, in 2006, we consulted publicly through a comment letter process. The comment period ended on 19 May 2006 and we received 182 comment letters.

Respondents who supported the management-perspective approach that was proposed in the Exposure Draft did so for the following reasons:

- The proposals would allow investors to review the operations from the same perspective as the management of the company and allow them to highlight the risks, opportunities and measures that management think are important and are used by them to make key decisions.
- The proposals would provide a better link between the financial statements and the information reported in the management commentary.
- Disclosing information that was already available internally to management would mean that companies would not incur significant extra effort, time or cost when reporting operating segments.
- Achieving convergence with the United States was desirable and this could be accomplished through the adoption of SFAS 131, which had been applied at that time for 10 years in the United States and was therefore well known, understood and tested by users, preparers and the markets.

Other respondents did not agree with adopting the management-perspective approach for the following reasons:

- Segment information was most useful for investors when it was based upon economically similar or related product/service lines or geographical factors. That is, they preferred the requirements in IAS 14.
- Using management information as a basis for segment reporting would dissociate the reported segment data from other reported IFRS financial statement information.
- Segments based on an individual company's internal reporting might not be comparable between companies that engage in similar activities and therefore the comparability of information across companies would be lost.

We accepted many of these concerns, but our assessment when we issued IFRS 8 was that the benefits associated with the management-perspective approach would outweigh any potential disadvantages.

A comparison of some of the expected benefits and disadvantages of applying the proposed Standard at the time it was issued are shown in the table below:

Benefits	**Disadvantages**
Achieves convergence with US GAAP	Inconsistent segments may be reported between companies
'Management eyes' perspective would improve users' ability to predict future results and cash flows	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 increased interim reporting	Non-IFRS measures would not be understood

What we have heard so far—2012

At this initial stage of the post-implementation review process, we have heard the following comments:

- Segment analysis is fundamental to investors' understanding of a company's performance and prospects.
- Many investors and preparers prefer looking at the business through management's eyes—it is less burdensome for preparers and more relevant for users.
- Some investors do not trust companies to publish how they *really* manage the business and have concerns about profit manipulation.
- Preparers, on the other hand, have concerns about a loss of confidentiality and damage to their competitive advantage.
- Some companies show different management reporting structures between the segment note and the management commentary or presentations to investors—and we need to understand why.
- Many preparers had previously modelled their internal reporting processes on IAS 14 to prevent a duplication of effort, and consequently did not change their basis of reporting operating segments when applying IFRS 8.
- Some investors tell us that they have lost comparability between companies and that the extent of comparability varies between industries and jurisdictions.
- Some preparers find it difficult to identify the CODM and the reporting segments.

We want to assess the effect of the application of IFRS 8 on financial reporting—from the perspective of preparers of financial statements; investors and other users of financial statements; market regulators; the accountancy profession and accounting standard-setters.

Invitation to comment

The IASB invites comments on any aspect of the application of IFRS 8.

Comments are most helpful to us, in our assessment of the effect of applying IFRS 8, if they are supported by examples from published financial statements or other relevant evidence.

You do not have to answer every question and you are encouraged to comment on any additional matters that you think are relevant to our review of the application of IFRS 8.

We will consider all comments received by **16 November 2012**. We will make our assessment on the merits of the information provided and not on the number of responses to each question.

1. Your background and experience

It is easier for us to understand the information that you give us if we know what your role is with respect to financial reporting and what you are using as a comparison to the application of IFRS 8.

Question 1

Are you comparing IFRS 8 with IAS 14 or with a different, earlier segment-reporting Standard that is specific to your jurisdiction?

In providing this information, please tell us:

(a) what your current job title is;

(b) what your principal jurisdiction is; and

(c) whether your jurisdiction or company is a recent adopter of IFRSs.

If you work in a non-IFRS environment your input is still useful to us—but we would like to know about your current reporting of operating segments so that we can assess your information in that context.

2. The use of the management perspective

The Standard that IFRS 8 replaced, IAS 14 *Segment Reporting*, required information in the financial statements to be analysed according to business segment (ie products and services) or geographical areas of operation. The business segment was a distinguishable component of the company that was engaged in providing a different product or service, or a different group of related products or services, and was subject to different risks and returns from those other segments.

When developing IFRS 8, we found that there were concerns that the definition of a 'business segment' was imprecise and difficult to apply to different businesses that operate under different circumstances. In addition, some companies that applied this definition interpreted their business as being a single business segment and provided no disaggregated information.

IFRS 8, on the other hand, adopted a management-perspective approach to segment identification, whereby an operating segment is a component of a company:

(a) that engages in business activities from which it may earn revenues and incur expenses;

(b) whose operating results are regularly reviewed by the company's CODM; and

(c) for which discrete financial information is available.

When we issued IFRS 8 we expected that identifying operating segments using the management-perspective approach would result in the following benefits to financial reporting:

(a) Companies would report segments that correspond to internal management reports. This would allow investors to view a company's operations from the same perspective as management and this would provide investors with more relevant information about the company's performance. We also thought that this would address concerns about the number of single-segment companies, because we thought that very few companies do not disaggregate their business operations for internal reporting. In addition, we thought that reporting on an internal-reporting basis would enable preparers of financial statements to communicate more effectively with investors and other users of financial statements.

(b) Companies would report information that is more consistent with other parts of the annual report, such as the management commentary or management discussion and analysis. The analytical value of the information produced would therefore be greater, because it is consistent with the company's organisation and overall financial communications. This integration would increase readers' understanding of both the segment information provided and the management commentary itself.

(c) Some companies would report more segments, improving the detail of the financial information provided.

(d) Segment reporting would be less burdensome on preparers because only one segment-reporting process would be required for both internal and external reporting.

(e) Companies would be able to report more segment information in interim financial reports. We thought that, because the information disclosed was based on internal reporting, companies would be able to provide more interim segment information in a more timely fashion and without incurring substantial additional cost.

When we developed IFRS 8, we consulted publicly through a comment letter process. Some comment letter respondents thought that the application of IFRS 8 could result in a loss of comparability. They were concerned that segments would not be comparable between companies, because each company would use its own management structure. Respondents were also concerned that trend information within individual companies would be lost over time if a company underwent frequent internal reorganisations.

When we issued IFRS 8 we thought that the benefits associated with company-specific segmentation would outweigh these concerns about a loss of comparability.

Question 2

What is your experience of the effect of the IASB's decision to identify and report segments using the management perspective?

Investors: please focus on whether our initial assessment—that the management perspective would allow you to better understand the business—was correct. What effect has IFRS 8 had on your ability to understand the business and to predict results?

Preparers: please include information about whether your reporting of operating segments changed when you applied IFRS 8. If it did, what effect did that change have on the efficiency of your reporting processes and your ability to communicate with investors?

3. The measurement of reported line items on a basis consistent with amounts reported to the CODM

Reporting in accordance with IAS 14 required that each reported line item was to be measured on the basis used in preparing the financial statements, ie IFRSs. IFRS 8, on the other hand, requires that each reported line item is measured in accordance with how that amount is reported to the CODM for the purposes of making decisions about allocating resources to the segment and assessing its performance.

When we issued IFRS 8, we thought that the use of internally-reported measures would highlight the risks that management face every day. For example, some line items might be measured at constant exchange rates if this risk is not managed at the operating segment level. Other companies might measure components of costs using standard, rather than actual, costs where these costs are not the responsibility of segment managers.

Our assessment was that this emphasis on managed risks reported to the CODM would give investors a greater understanding of how those risks are managed.

The public consultation we undertook before issuing IFRS 8 highlighted two concerns. Some respondents were concerned that the use of non-IFRS measurements would make the segment information difficult to understand, which would reduce its predictive value to investors. Others were concerned that the use of non-IFRS measurements would reduce the perceived reliability of segment information.

Question 3

How has the use of non-IFRS measurements affected the reporting of operating segments?

Investors: please comment on the effect that the use of non-IFRS measurements has had on your ability to understand the operating risks involved in managing a specific business and the operating performance of that business. It would be particularly helpful if you can provide examples from published financial statements to illustrate your observations and enable us to understand the effects that you describe.

Preparers: it would be helpful if you could provide information about whether you changed your measurement basis for operating segment information on the application of IFRS 8 and, if so, what effect this has had on your ability to communicate information about operating risks and performance with investors and other users of your financial statements.

4. The reporting of only those line items regularly reviewed by the CODM

IAS 14 required the disclosure of specific line items such as revenue, profit or loss, depreciation and total operating assets and these line items were to be as defined by IFRSs. IFRS 8 requires that the reported line items should be those reviewed by the CODM and used internally as a basis for decision-making.

When we issued IFRS 8 some investors were concerned that some line items that they think are important would be omitted from the information about operating segments. Many were concerned that companies would no longer disclose their operating result disaggregated by business segment or that the definition of the profit or loss measurement used would be inconsistent with IFRSs. Others were concerned that they would not receive information about cash flows or working capital analysed by operating segment.

Question 4

How has the requirement to use internally-reported line items affected financial reporting?

Investors: please focus on how the reported line items that you use have changed. Please also comment on which line items are/would be most useful to you, and why, and whether you are receiving these.

Preparers: please provide information about any changes in reported line items that resulted from the application of IFRS 8.

5. You and your role

Disclosures were closely defined by IAS 14. In that Standard, segment reporting consisted of both a primary segment and a secondary segment, with each segment being selected from business segments or geographical regions. Reported line items were mandated and those line items were defined in accordance with IFRSs. Fewer line items were mandated for whichever basis was designated as the secondary basis of segmentation.

Because each company's basis of segmentation will differ, IFRS 8 has a wider range of required disclosures. There is more disclosure, for example, about each company's individual segmentation basis. Each company is required to disclose general information about factors used to identify reportable segments and information about the types of products and services from which each segment derives revenue.

Concerns expressed during the development of IFRS 8 about the use of non-IFRS measurements, and about the requirement to disclose only those line items reviewed by the CODM, are addressed through the requirement to disclose a reconciliation of the amount for total reported segments with the company's total amounts for specified line items.

In addition, IFRS 8 requires, unless it is not available and would be costly to develop, the company-wide disclosure of the following fundamental operating information:

(a) revenues from external customers for each product or service on an IFRS basis;

(b) revenues from external customers, split between the country of the company's domicile and foreign countries. If the revenues from external customers that are attributed to an individual foreign country are material, those revenues should be separately disclosed;

(c) the disclosures required in (b) for revenue are also required for defined non-current assets; and

(d) if the revenues from a single customer make up more than 10 per cent of total revenue, the company should disclose that fact, disclose the amount of revenue involved and the identity of the segment or segments in which the revenue is reported.

Most investors welcomed the prospect of additional disclosure, especially those company-wide disclosures about customers. Some investors, however, find the reconciliations confusing because they take into account both the differences in measurement bases as well as the differences that arise because of the definition of non-IFRS reported line items. Initial feedback indicates that many investors think that the reconciliation should be prepared segment by segment rather than at a total operating segments level.

When we developed IFRS 8, we expected its application to be less burdensome for preparers than IAS 14 had been and our initial assessment is that this has proved to be correct. However, initial feedback from some preparers suggests that splitting the disclosures between segment information and company-wide disclosures is confusing. Others find it difficult to collect the company-wide disclosures because they cover a range of different aspects of the transaction data such as individual customers and countries.

Question 5

How have the disclosures required by IFRS 8 affected you in your role?

Investors: please provide examples from published operating segment information to illustrate your assessment of the disclosures relating to operating segments. Do you now receive better information that helps you to understand the company's business? Please also comment on the specific disclosure requirements of IFRS 8—for example, those relating to the identification and aggregation of operating segments; the types of goods and services attributed to reportable segments; and the reconciliations that are required. It would also be useful to indicate whether you regularly request other types of segment disclosures.

Preparers: please consider whether operating segment disclosures are more or less burdensome when based on information prepared in accordance with your own internal reporting requirements. If any requirements are burdensome, please provide details of those disclosures and explain why they are costly or time-consuming to prepare. Do you think that the information you present now about operating segments conveys better information to investors and shareholders? It would be useful to indicate whether you regularly report any segment information in addition to that required by IFRS 8.

6. Your experience of implementing IFRS 8

When we issued IFRS 8 we thought that the incremental costs of applying IFRS 8 would be low because the information reported about operating segments would be provided by existing internal reporting systems and processes. We also did not think that there would be significant implementation issues in applying IFRS 8 because the existing reporting process would not require modification.

Question 6

How were you affected by the implementation of IFRS 8?

Preparers: in answering this question please focus on whether you incurred significant unexpected costs, either as a one-time expense when implementing the Standard or as a recurring cost at each reporting cycle. If you did incur unexpected costs, please explain what these were and in what way they were required to comply with IFRS 8.

In addition, we would like to know what practical difficulties you encountered, if any, when applying IFRS 8. Did you find that IFRS 8 is clear about all aspects of the requirements, such as the identification of operating segments, aggregation of segments and the nature of the CODM? If IFRS 8 is not clear, please provide details of your experience.

Investors: please focus on whether the way in which you use financial reports has changed as a result of applying IFRS 8. Please explain to us what that effect was and the consequences of any changes to how you analyse data or predict results.

Next steps

The IASB invites responses to this RFI until **16 November 2012**. IASB members and staff will undertake a broad range of outreach activities internationally to assist with gathering this feedback. We expect to consider comment letter responses and feedback from outreach activities in a public meeting of the IASB in early 2013.

Comment in writing

Submit a comment letter, preferably online, at:

http://go.ifrs.org/pir+ifrs8+cls

Alternatively you can write to our postal address or send us an email to commentletters@ifrs.org. All comment letters are public documents and will be published on our website.

Participate in an event

We intend to hold a number of workshops with preparers, regulators and the accounting firms as well as discussion forums with investors. Many of these public meetings will be arranged through local standard-setters or regulators. The project page will inform you about these meetings and any other planned discussion forums about the post-implementation review of IFRS 8:

http://go.ifrs.org/ifrs8

For investors

We are particularly interested in understanding the effect of IFRS 8 on investors and are always willing to speak with individual investors or representative groups. If you want to get in touch, please contact Hilary Eastman at heastman@ifrs.org.

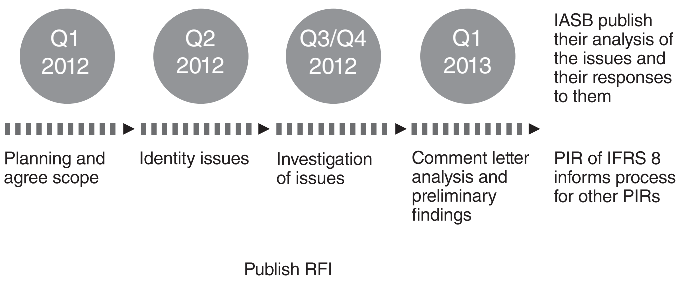
Stay informed

Our post-implementation review alerts will keep you up to date about our PIR process.

To register, go to:

http://www.ifrs.org/IASB+Registration.htm

Time line of the post-implementation review



Appendix A: background and objective of the post-implementation review process

The Trustees added post-implementation reviews (PIRs) as a mandatory step to the IASB's due process requirements in 2007. The current *Due Process Handbook* for the IASB ('the Handbook') states that PIRs would normally be limited to important issues that are identified as contentious during the development of a Standard, with the aim of considering any unexpected costs or implementation problems that had been encountered. The Handbook also states that the PIR should take place two years after the mandatory effective date of the Standard.

We continued, however, to develop our approach to PIRs throughout 2011 and 2012. We consulted a wide range of interested parties on this process. We discussed the review process with the IFRS Advisory Council, the IFRS Interpretations Committee and the Trustees' Due Process Oversight Committee. We also listened to national standard-setters, regional standard-setting forums and accounting firms as well as preparer, investor and regulator groups.

As a result of this consultation, we received feedback that the proposed investigation stage of the PIR was not sufficiently transparent because it was not clear who was being asked to provide us with input. In response we have introduced a public consultation step, in the form of a Request for Information (RFI), as an early part of the review process. We also agreed that the scope of the PIR should be extended to include issues that came to our attention after the Standard was published in addition to those identified as contentious during the development of the Standard.

Our revised methodology is included in the draft revised *IFRS Foundation Due Process Handbook* ('draft Handbook') that was published by the Trustees on 8 May 2012 for public comment. Comments are due on the draft Handbook by 5 September 2012. An extract of the section of the draft Handbook that deals with PIRs is attached as Appendix B.

Our methodology now sets out two planned phases of a typical PIR:

Phase 1 initial assessment and public consultation:

(a) an initial assessment to identify issues that were important or contentious at the time that the Standard was developed, or issues that came to our attention after the Standard was published, and to identify unexpected costs or implementation problems;

(b) a review of available literature;

(c) consultation with IFRS-related bodies and interested parties; and

(d) public consultation on matters to be examined in an RFI.

Phase 2 consideration of evidence and presentation of findings:

(a) consider comments received on the RFI;

(b) consider the need for additional information or evidence; and

(c) present our findings in a public report.

Appendix B: extract from the draft *IFRS Foundation Due Process Handbook*

Post-implementation review

6.49 The IASB is required to conduct a PIR of each new IFRS or major amendment. A PIR normally begins after the new requirements have been applied internationally for two years, which is normally 30–36 months after the effective date.

6.50 In addition to PIRs that respond to a new IFRS or major amendment, the IASB may decide to conduct a PIR in response to changes in the financial reporting environment and regulatory requirements, or in response to concerns about the quality of an IFRS that have been expressed by the Advisory Council, the Interpretations Committee, standard-setters or interested parties.

6.51 Each review has two phases. The first involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the IASB in the form of a Request for Information. In the second phase, the IASB considers the comments it has received from the Request for Information along with information it has gathered through other consultative activities. On the basis of that information, the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.

Initial assessment and public consultation

6.52 The goal of improving financial reporting underlies any new IFRS. 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 IFRS), as well as issues that have come to the attention of the IASB after the document was published. The IASB and its staff also consult the wider IFRS community to help the IASB identify areas where possible unexpected costs or implementation problems were encountered.

6.53 This initial review should draw on the broad network of IFRS-related bodies and interested parties, such as the Interpretations Committee, the IASB's consultative groups, including the Advisory Council, securities regulators, national and regional standard-setting bodies, preparers, auditors and investors. The purpose of these consultations is to inform the IASB so that it can establish an appropriate scope for the review. How extensive the consultations need to be in this phase will depend on the IFRS being reviewed and on what the IASB already knows about the implementation of that IFRS. The IASB needs to be satisfied that it has sufficient information to establish the scope of the review.

6.54 The IASB publishes a Request for Information, setting out the matters for which it is seeking feedback by means of a formal public consultation. In the Request for Information, the IASB should explain why it is seeking feedback on the matters specified and should include any initial assessment by the IASB of the IFRS or major amendment being reviewed. The Request for Information will also set out the process that the IASB followed in establishing the scope of the review.

6.55 The IASB normally allows a minimum of 120 days for comment on a post-implementation Request for Information. The IASB will only set a period of less than 120 days after consulting and obtaining approval from the DPOC.

6.56 The IASB may decide, on the basis of its initial assessment, that it would be premature to undertake a review at that time. The IASB must inform the DPOC of its intention to defer a PIR, explaining why it has reached this conclusion and indicating when it expects to resume the review.

Consideration of evidence and presentation of findings

6.57 The IASB considers whether it is necessary to supplement the responses to the Request for Information with other information or evidence, such as by undertaking:

(a) an analysis of financial statements or of other financial information;

(b) a review of academic and other research related to the implementation of the IFRS being reviewed; and

(c) surveys, interviews and other consultations with relevant parties.

6.58 The extent to which further information is gathered will depend on the IFRS being reviewed and the feedback in the Request for Information.

6.59 The IASB considers the comments that it has received from the Request for Information along with the evidence and information that it has obtained from any additional analysis. When the IASB has completed its deliberations, it presents its findings in a public report. The IASB may consider making minor amendments to the IFRS or preparing an agenda proposal for a broader revision of the IFRS. There is no presumption that a PIR will lead to any changes to an IFRS. The IASB may also continue informal consultations throughout the implementation of the IFRS or the amendment to the IFRS. The IASB may recommend to the DPOC that the IASB should make changes to its procedures, such as how effects of the IFRS are assessed or additional steps that should be taken during the development of an IFRS.

6.60 The IASB must inform the DPOC when it has completed its review and provide the DPOC with a draft of the report. When the DPOC is satisfied that the IASB has completed the review satisfactorily, the report can be finalised.