IFRS

STAFF PAPER

January 2022

IASB Meeting

Project	**Work plan**
Paper topic	Approach to prioritising matters arising from post-implementation reviews
CONTACT(S)	Nili Shah nshah@ifrs.org

Purpose of the paper

1. This paper proposes a consistent approach to prioritise matters arising from post-implementation reviews (PIRs).

2. The staff think that now is the appropriate time to develop a consistent approach because:

   (a) the IASB has completed three PIRs, which can inform the development of a consistent approach. [1]

   (b) several PIRs are expected to be completed in the next few years and would benefit from a consistent approach. [2]

[1] Completed PIRs: IFRS 8 *Operating Segments*, IFRS 3 *Business Combinations* and IFRS 13 *Fair Value Measurement*.

[2] PIRs in progress:
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 9 *Financial Instruments*— classification and measurement requirements.

PIRs expected to start in the second half of 2022:
- IFRS 9 *Financial Instruments*—impairment requirements
- IFRS 15 *Revenue from Contracts with Customers.*

PIRs for which the IASB will consider the start date in the second half of 2022:
- IFRS 9 *Financial Instruments*—hedging requirements
- IFRS 16 *Leases.*

(c) currently the IASB is conducting its five-yearly agenda consultation and questions have arisen regarding how issues identified in PIRs should be factored into prioritisation decisions.

3. The approach addresses the IASB's request at its November 2021 meeting to develop further its strategy for deciding whether and when to take action based on feedback from PIRs. This request originated through discussions about:

   (a) the priority of matters arising from the PIR of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*; and

   (b) more generally, how the IASB should consider the priorities from post-implementation reviews compared to priorities arising from the IASB's Third Agenda Consultation.

4. The staff believe the approach recommended in this paper to prioritise matters arising from PIRs would balance the more holistic prioritisation conducted as part of agenda consultations with maintaining the credibility and effectiveness of PIRs. For example, stakeholders may be unwilling to participate in PIRs if consideration of all findings is deferred until a subsequent agenda consultation.

Structure of the paper

5. This paper includes:

   (a) background to PIRs (paragraphs 6–11);

   (b) recommended approach to prioritisation (paragraphs 12–17);

   (c) feedback (paragraphs 18–21); and

   (d) question for the IASB.

Background to PIRs[3]

Objective of PIRs

[3] See paragraphs 6.48-6.59 of the *Due Process Handbook*.

6. The objective of PIRs is to assess the effect of new Accounting Standards (or major amendments to Accounting Standards, collectively referred to as 'new Accounting Standards' in this paper) on users of financial statements, preparers, auditors and regulators. Specifically, the IASB assesses whether a new Accounting Standard is working as intended by assessing whether:
   (a) the standard-setting project has met its objectives;
   (b) information provided by the new Accounting Standard is useful to users of financial statements;
   (c) the costs arising in preparing, auditing, enforcing or using the information provided by the new Accounting Standard are broadly as expected by the IASB when it developed the Accounting Standard; and
   (d) the requirements are capable of being applied consistently.
7. The assessment of the findings from the PIR helps the IASB determine what, if any, action to take. PIR findings can also be useful input for improving the standard-setting process.
8. A PIR is not intended to:
   (a) redeliberate information the IASB considered when it developed the new Accounting Standard. Rather, a PIR considers new information resulting from application of the Accounting Standard and market developments since the Accounting Standard was issued.
   (b) identify and resolve every application question. However, trends in application questions may identify the need for action or improvement to the standard-setting process.

PIR process

9. The IASB undertakes a PIR for each major new Accounting Standard. The earliest a PIR starts is about 30-36 months after the effective date of the new Accounting Standard. The start date depends on a variety of considerations, including:
   (a) the availability of information such as trend data, academic research and possible areas of focus which may be identified through implementation support.

(b) the level of change from the Accounting Standard and whether more time is needed for practice to develop (while balancing the risk that practice may become so embedded that resistance to improvements may develop).

(c) the level of immediate application support already provided, for example through a Transition Resource Group or the IFRS Interpretations Committee (Committee). Greater application support after issuance of a new Accounting Standard may suggest a reduced need to start a PIR as early as possible.

10. The PIR process consists of two phases. Throughout both phases, the IASB reviews relevant academic studies and other reports and may conduct research and other outreach.

(a) The first phase involves the initial identification and assessment of matters to be examined, drawing on discussions with the Committee, the IASB's advisory groups and other interested parties. The IASB then consults publicly on the matters identified in the first phase of the PIR, as well as requesting information on other matters that stakeholders believe warrant consideration.

(b) In the second phase, the IASB considers the comments from the public consultation along with the information it has gathered from any additional analysis and other consultative activities.

11. At the end of the PIR, the IASB publishes a Report and Feedback Statement summarising its findings and matters it believes warrant further consideration, if any.

Recommended approach to prioritisation

12. This paper proposes a consistent approach to identifying whether and when to take further action based on the work conducted in the PIR. To develop this proposal, the staff:

(a) considered the objective of PIRs, as described in paragraphs 6–8.

(b) reviewed the actions arising from completed PIRs and the reasons for those actions.

(c) considered interactions with the agenda consultation process, recognising that PIRs may not always be performed around the same time as an agenda consultation and, therefore, may not benefit from the broader feedback and prioritisation that is part of the agenda consultation process.

(d) considered feedback, as described in paragraphs 18–21.

13. Based on this work, the staff recommend that the IASB considers further action for matters identified in the PIR process when the findings from the PIR provide evidence that:

(a) the objective of the new Accounting Standard is not being met;

(b) there is a significant deficiency in how information arising from application of the new Accounting Standard is meeting the needs of users of financial statements;

(c) there is diversity in the application of the Accounting Standard's requirements that significantly reduces the comparability of financial statements and therefore their usefulness to users of financial statements; or

(d) the costs of preparing, auditing enforcing or using information arising from the application of the new Standard differs significantly from expectations (for example, there are differences from the effects analysis issued with the new Accounting Standard).

The staff recommendations are based on the objective of a PIR, as described in paragraph 6.

14. If the findings from the PIR indicate that any of the circumstances in paragraph 13 have arisen, then the staff recommend that the IASB prioritises matters based on the characteristics of the matter—that is, the extent to which:

(a) the consequences of the matter are significant.

(b) the matter is pervasive.

(c) the matter can be addressed by the IASB. For example, is the matter within the IASB's remit? Or, is the matter primarily due to poor compliance?

(d) the benefits would outweigh the costs, if standard-setting may be needed. This would include consideration of whether practice has already addressed the matter, the extent of disruption and operational costs from change and the importance of the matter to users of financial statements.

15. The staff does not recommend including 'size of a potential project' in the list in paragraph 14. Consideration of size could result in adverse outcomes because:

(a) if size were a consideration in prioritisation, more important matters may be deprioritised in favour of smaller matters; and

(b) matters may be best addressed holistically, rather than through smaller pieces.

16. Based on a matter's characteristics, the staff recommend that the IASB categorise matters as follows:

(a) high priority matters, which would be prioritised to be addressed as soon as possible. These matters are expected to be rare, but would involve:

(i) questions relating to the objective or core principle of a new Accounting Standard such that the IASB is unable to conclude in the PIR that the new Accounting Standard is working as intended.

(ii) questions for which solutions are needed urgently (eg similar to urgent projects on IBOR rate reform and covid-related rent concessions recently undertaken by the IASB).

(b) medium priority matters, which would be added to the research pipeline. The research pipeline represents inactive projects that the IASB has committed to starting, typically before the next Agenda Consultation.[4] These matters would consist of those for which <u>most</u> of the characteristics in paragraph 14 are present to a <u>large extent</u> and for which the benefits are expected to exceed the costs.

(c) low priority matters are those that the IASB would address only if they are identified as a priority in the next Agenda Consultation or when the

[4] Of course, for medium-priority matters arising from PIRs that conclude shortly before the next Agenda Consultation, the IASB may need some additional time before it starts addressing such matters.

Accounting Standard is next amended. These matters would consist of those for which:

(i) some of the characteristics in paragraph 14 are present to some extent; and

(ii) the remainder of the characteristics in paragraph 14 are not met or there is insufficient information to conclude whether the characteristic is present.

(d) 'no action' matters are those that the IASB would not take further action on. These matters would consist of those for which few or none of the characteristics in paragraph 14 are present.

17. If the IASB decides to take action, once the project becomes active, the next steps would follow the IASB's existing standard-setting process:

(a) first, the IASB would conduct research to determine the root causes of a matter, prevalence, scope and whether possible standard-setting solutions exist. For some questions, information gathered from the PIR project may be sufficient to begin standard-setting. Other questions may have a brief research phase and move quickly to the standard-setting work plan. Larger and more complex projects may require more research and culminate in the publication of a Discussion Paper. The feedback from the Discussion Paper would assist the IASB in determining whether to move the project to the standard-setting work plan and how to proceed thereafter.

(b) ultimately, the research may lead to:

(i) no further action, for example, if the IASB concludes that the benefits of change would not exceed the costs;

(ii) continued monitoring of the situation;

(iii) educational material;

(iv) annual improvement;

(v) narrow scope standard-setting; or

(vi) major amendment.

Feedback

18. The staff discussed the recommendation in this paper with the Advisory Council at its meeting on 11 January 2022. Overall, most Advisory Council members agreed with the approach.

19. One member questioned whether there is a need for a medium prioritisation category. The member thought issues should either be resolved immediately or be added to next Agenda Consultation. The staff believe that the medium prioritisation category is necessary to strike the balance discussed in paragraph 4. Some matters may not be so urgent that they need to displace other ongoing projects (as could be the outcome of the high priority category). However, deferring consideration of the matter's priority until the next agenda consultation could disenfranchise stakeholders who invested time in providing feedback on a PIR.

20. Some members suggested the following refinements to the approach:

    (a) One member said the analysis should include quantitative measures on how many jurisdictions fully adopt the standards without amendments. The staff think that the approach is a framework and, if useful, such an analysis can be considered in the application of the approach to some matters.

    (b) One member asked whether some characteristics will be prioritised in assessing whether and when to take actions, for example, information not meeting users' need may be more important than diversity in application. Again, the staff think that the approach is a framework and should be flexible enough to apply to a variety of situations. Judgment, therefore, will be needed in its application.

    (c) One member recommended the considerations for determining the priority of matters arising from PIRs (paragraphs 13–14) should align with the criteria for assessing new projects in the agenda consultation. The staff observe that the considerations are largely consistent, but that the PIR considerations incorporate aspects unique to PIRs, given their objective. For example, because a PIR is assessing whether a new Accounting Standard is working as intended, one of the considerations for prioritisation of matters arising from PIRs is the extent to which actual costs differ from expectations when the IASB developed the new Accounting Standard.

21. A few members expressed more general observations about PIRs:

(a) One member expressed concern about the timing of PIRs, observing that the PIR of IFRS 8 *Operating Segments* took a long time to complete. The staff acknowledge this feedback and note that the PIR of IFRS 8 was the IASB's first PIR. Since that time, the IASB's process has evolved to include more timely undertaking of PIRs, as seen more recently with the PIR on the classification and measurement requirements in IFRS 9 *Financial Instruments*.

(b) A few members stated that the outcome of PIRs should not be limited to narrow-scope amendments and educational materials. The staff observe, as stated in paragraph 17(b)(vi), that the outcome of a PIR could be major standard-setting, if evidence supports the need.

Question for the IASB

Question for the IASB
Do you agree with the recommendation in paragraphs 13–17 for an approach to prioritising matters arising from a PIR?