

AGENDA PAPER

IFRS® Foundation Trustees meeting – Due Process Oversight Committee

By
videoconference

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CONTACT

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Purpose of this paper

1. As discussed in [Agenda Paper 1B](#) for the March 2022 Due Process Oversight Committee (DPOC), as the IASB has gained more experience with post-implementation reviews (PIRs)¹, it has more clearly articulated:
 - (a) the objective of a PIR;
 - (b) the reasons for its decision regarding when to start a PIR;
 - (c) the priority of matters identified in a PIR – that is, whether matters identified in a PIR will give rise to follow-on work (PIRs themselves are not standard-setting projects; rather, based on research and feedback, the IASB determines whether matters identified in PIRs warrant further work) and when; and
 - (d) the outcomes of a PIR (eg, take no further action, develop educational material, undertake standard-setting).
2. Also as discussed in [Agenda Paper 1B](#) for the March 2022 DPOC meeting, in light of the number of PIRs underway² and forthcoming³, we think that it is important to more clearly communicate to stakeholders PIR objectives, process and possible outcomes.
3. To that end, we are in the process of drafting an updated description of PIRs for the IFRS Foundation [website](#), which will also be used as a basis for other communications, such as speeches. The description is derived from the *Due Process*

¹ The IASB has completed three PIRs:

- IFRS 8 *Operating Segments*
- IFRS 3 *Business Combinations*
- IFRS 13 *Fair Value Measurement*.

² The IASB has two PIRs in process:

- 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.

³ The IASB expects to start the following PIRs in the second half of 2022:

- IFRS 9 *Financial Instruments*—impairment requirements
- IFRS 15 *Revenue from Contracts with Customers*.

The IASB will consider the start date of the following PIRs in the second half of 2022:

- IFRS 9 *Financial Instruments*—hedging requirements
- IFRS 16 *Leases*.

Handbook but tries to more clearly articulate key points. This paper sets out the main clarifications to the description in the *Due Process Handbook*.

4. The drafting we have underway may differ slightly from the description in the Report and Feedback Statement on the PIR of IFRS 10, IFRS 11 and IFRS 12. These differences have arisen because the PIR of IFRS 10, IFRS 11 and IFRS 12 was mostly conducted prior to the IASB's discussions about PIRs more generally.
5. We note that the DPOC plans to update the *Due Process Handbook* for the creation of the International Sustainability Standards Board (ISSB). This may also be an opportunity to improve the description of PIRs in the *Due Process Handbook*, particularly because the ISSB will also eventually conduct PIRs on its new standards.

Clarifications to description

Objective of a PIR

Overall assessment

6. Paragraph 6.51 of the *Due Process Handbook* states '[a] post-implementation review is an opportunity to assess the effect of the new requirements on investors, preparers and auditors following the issuance and application of a Standard'. In describing effects analyses, paragraph 3.78 states that a PIR provides 'an opportunity to understand the effects of [a] change in financial reporting by comparison to those identified by the [IASB] when it issued the new requirements'.
7. We are considering clarifying that the objective of a PIR is to make an overall assessment about whether the new requirements are working broadly as intended – that is, whether the benefits and the costs (including financial and other costs, both initially and ongoing) to users of financial statements, preparers, auditors and regulators are broadly as expected by the IASB when it developed the new requirements. We think that the notion of an 'overall' assessment in relation to original expectations is consistent with paragraphs 6.51 and 3.78, taken together.

Focus on new information

8. We are considering clarifying that a PIR is not intended to redeliberate information the IASB considered when it developed the new requirements.
9. The *Due Process Handbook* does not explicitly make this statement. In fact, paragraph 6.51 states that a PIR 'considers the issues that were important or contentious during the development of the publication'. This statement could lead – and, in fact, has already led – some to believe that a PIR is an opportunity to re-open old debates.
10. However, even though there is no explicit statement in the *Due Process Handbook* consistent with the language in paragraph 8, we think it follows logically from the objective. That is, because the objective is an assessment compared to effects identified by the IASB when it issued the new requirements, the focus of a PIR must be on new information (such as changes in the environment compared to when the

standard was developed, new products that have emerged, significantly larger cost than was anticipated, etc.).

11. Moreover, any change to the financial reporting system introduces additional costs for all stakeholders. Therefore, there needs to be a compelling reason for the IASB to amend a requirement (that is, new information) other than, for example, a different IASB composition deliberating on a highly judgmental, evenly split question that was previously decided on.

Starting a PIR

12. Paragraph 6.48 of the *Due Process Handbook* states that a PIR ‘normally begins after the new requirements have been applied internationally for two years, which is generally about 30-36 months after the effective date’. We are considering clarifying on the IFRS Foundation website that the *earliest* a PIR begins is after the new requirements have been applied for *at least* two years. We think this clarification is consistent with the *Due Process Handbook*, which provides flexibility in the start date through its use of the word ‘normally’. However, we acknowledge that our clarification suggests, compared to the original language, that more PIRs will start after two years. This timing is consistent with the IASB’s practice, in which we have found that two years is typically not long enough for sufficient information to become available (eg, trend data, academic research and experience amongst stakeholders) to conduct a PIR.
13. We are also considering communicating the factors the IASB considers in determining when to start a PIR, which are centred around the availability of information, as noted in paragraph 12 of this paper. Although the *Due Process Handbook* does not explicitly lay out these factors, they are implied in the types of information the IASB is required to consider in its PIRs and consistent with our practice. For example, paragraphs 6.51 to 6.53 of the *Due Process Handbook* refer to consultation with stakeholders and paragraph 6.56 states that the IASB consider undertaking an analysis of financial statements and a review of academic research related to the implementation of the new requirements.

Priority of matters identified in a PIR

14. The *Due Process Handbook* currently does not contain any discussion about determining whether matters arising from a PIR warrant further action and, if so, when.
15. In January 2022, the IASB decided on an approach to prioritising matters identified in PIRs. The IASB’s decision is intended to balance the demand to address ‘old’ issues (from PIRs) with ‘new’ standard-setting projects identified in an agenda consultation, given limited IASB and stakeholder capacity.
16. **Agenda Paper 1B** for the March 2022 DPOC meeting discussed this approach. Since that meeting, we continue to refine the drafting in advance of updating the IFRS Foundation website. In this regard, we are considering revising the description of ‘no action’ matters. Agenda Paper 1B for the March 2022 DPOC meeting indicated that

no further action would be taken on such matters. However, we are considering softening the description to state that these matters would not be explored unless stakeholders identify them as a priority in their feedback on a future agenda consultation and the IASB decides, in its deliberations on the feedback, to take action. The language in Agenda Paper 1B for the March 2022 DPOC meeting could otherwise be interpreted to mean that ‘no action’ matters would not, under any circumstances, be considered in the future.

Outcomes of a PIR

17. We are also considering clarifying that, in gathering evidence to make an overall assessment about whether the new requirements are working broadly as intended, the IASB may identify specific application questions. This is consistent with paragraph 6.58 of the *Due Process Handbook*, which notes that the IASB may consider making minor amendments or broader revisions as a result of a PIR.
18. However, we would also clarify that a PIR is not intended to lead to the resolution of every application question. The *Due Process Handbook* is silent in this regard, but it follows from the prioritisation approach discussed in paragraphs 14 to 16 of this paper.
19. In addition, to explicitly address some misconceptions about PIRs, we would remind stakeholders that they do not need to wait for a PIR to seek resolution of application questions; rather, application questions can be submitted at any time to the IFRS Interpretations Committee or, in some circumstances, a Transition Resource Group established to support the implementation of new requirements.