Feedback is essential to maintaining and improving the quality of a process and its outputs. A new source of feedback recently was established for the benefit of the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) by their common parent, the Financial Accounting Foundation (FAF). Specifically, the FAF has begun to conduct post-implementation reviews (PIRs) to provide the Boards with feedback on their accounting standards and standards-setting processes. Separately, the International Accounting Standards Board (IASB) has begun to conduct PIRs of its own standards and process.

**FAF PIRs**

In the United States, the FASB sets authoritative financial accounting and reporting standards for nongovernmental entities, and the GASB does the same for governmental entities at the state and local levels. In 2010, the FAF established a formal process for conducting PIRs of standards issued by the FASB and the GASB. Periodically, the FAF selects specific FASB and GASB standards on which to conduct PIRs. The objectives of these reviews are to:

- Determine whether a selected standard is accomplishing its stated purpose,
- Evaluate the selected standard’s implementation and continuing compliance costs and related benefits, and
- Provide recommendations to improve the standards-setting process (as opposed to recommending specific standards-setting actions).

So far, the FAF has completed PIRs of two FASB standards. It hasn’t yet completed a PIR for any GASB standards. PIRs of the following standards are in progress:

- GASB Statement No. 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements”; and GASB Statement No. 40, “Deposit and Investment Risk Disclosures” (an amendment of GASB Statement No. 3).

**IASB PIRs**

The IASB sets country-neutral financial accounting and reporting standards for nongovernmental entities on a global scale. In 2007, the trustees of the IASB’s parent, the International Financial Reporting Standards (IFRS) Foundation, established a requirement for the Board to conduct a PIR of each new standard (or major amendment of a standard) two years after the standard’s effective date. As envisioned by the trustees, PIRs could also be prompted by other events and circumstances, such as unanticipated changes in regulatory requirements.

Unlike the FASB and the GASB, whose PIRs are conducted by the FAF, the IASB conducts its own PIRs. Also, the requirement to conduct a PIR is a standing requirement for all new standards and major amendments that the IASB issues, which is in contrast to the FAF’s more selective approach. According to the IASB, its PIRs focus on “important issues identified as contentious during the development of the standards and consideration of any unexpected costs or implementation problems encountered.”

On July 19, 2012, the IASB began its first PIR, which addresses
IFRS 8, “Operating Segments.” So far, the Board hasn’t finished that review or commenced any additional ones. A PIR of IFRS 3, “Business Combinations,” is scheduled to start in the first half of 2013.

PIR OUTCOME: FIN 48
On January 12, 2012, the FAF published its first PIR report, on FASB Interpretation (FIN) No. 48, “Accounting for Uncertainty in Income Taxes.” The report’s chief conclusion was that “On balance, the benefits of FIN 48’s improved consistency and reporting of income tax uncertainty information outweigh its costs.” In particular, the report noted that “most preparers [of financial statements] did not incur significant incremental FIN 48 implementation and continuing compliance costs.” But the report also noted that “some preparers did incur significant implementation costs, particularly smaller entities. Those entities that did incur significant costs cite additional audit fees, external legal and accounting expertise, and documenting existing tax positions as the most significant costs. They also indicate that implementation costs tended to be significantly higher than expected.”

These observations surprised no one familiar with FIN 48 and its adverse impact that many smaller entities experienced. Further dashing preparers’ hopes of relief, the FASB’s response made it very clear that the Board would not review or reconsider FIN 48, which at that point had been incorporated into Topic 740, Income Taxes, of the FASB’s Accounting Standards Codification® (ASC).

In covering the FASB’s response to the FIN 48 PIR report, Internet media outlet CFO.com noted dryly that “FIN 48 has been near the top of many CFO lists of the most hated FASB standards.” (“FASB Insists on Tax Rule Hated by CFOs,” March 20, 2012) Fortunately, the lingering animosity of the preparer community toward FIN 48 wasn’t ignored by the FAF’s newly formed Private Company Council (PCC). At its inaugural meeting on December 6, 2012, the PCC identified the issue of accounting for uncertain tax positions as one of its four initial research priorities as it develops an agenda of proposed changes to FASB standards that private companies find the most onerous and/or useless. Thus private-company financial executives still have reason to hope for improvement in this area.

PIR OUTCOME: SFAS No. 131
On January 14, 2013, the FAF published its PIR report on SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information.” The review was largely favorable, with a key conclusion being “Both the costs and the benefits associated with Statement 131’s required segment disclosures are consistent with the Board’s and stakeholders’ expectations.” The report did, however, identify several opportunities for the standard (now documented in ASC Topic 280, Segment Reporting) to be improved.

This time, the FASB had a very different reaction to the PIR report. In particular, FASB Chairman Leslie F. Seidman directly acknowledged the identified opportunities to improve the existing standard, saying “The post-implementation review report on Statement 131 affirms the overall effectiveness of the standard. However, the report identified aspects of Statement 131 that stakeholders think could be improved; for example, the effect of changes in technology on the determination of what information is reviewed by the chief operating decision maker. We are considering the reported findings and will provide our initial response in the coming weeks.”

The FASB will also consider the IASB’s ongoing PIR of IFRS 8 “before making a determination on how to proceed,” she added.

Going forward, the FAF and the IASB are likely to refine their PIR processes as they gain more experience. As they do so, those organizations will certainly face challenges in ensuring that their PIRs produce timely feedback. And in a perfect world, the FAF and the IASB would leverage their post-implementation review experience into pre-implementation reviews, which could proactively improve the quality of standards issued.

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