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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. It does not represent an official position of the IFRIC. IFRIC positions are set out in Interpretations.

Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: March 2006, London

**Project: IFRIC relationship with National Standard-Setters and
National Interpretative Groups (Agenda Paper 7)**

1. IFRIC members have requested a staff paper on IFRIC's relationship with national standard-setters (NSSs) and national interpretative groups (NIGs).

Background

2. In its Review of Operations published in April 2005, the IFRIC asked:

How can NSS (especially when the NSS are operating in an IFRS environment) become more closely involved in interpretation, without multiple sources of interpretation becoming a problem?
3. The summary of the IFRIC views expressed on this topic in the Review of Operations was as follows:
 1. The IFRIC supports NSS/NIG bringing issues to the IFRIC table and/or helping to handle those issues through the IFRIC due process.
 2. Should a NSS/NIG consider it necessary to develop an interpretation on a matter of domestic importance only, the IFRIC supports having staff liaise with the NSS/NIG when the issue is proposed and as the solution is being finalised to consider whether the domestic issue is solely that and to try to identify any IFRS incompatibility.
 3. NSS/NIG that issue domestic interpretations should take full responsibility for so doing and should not imply IFRIC endorsement.

4. The comment letter analysis presented to the IFRIC at its November 2005 meeting included analysis of comment about the involvement of NSS/NIG in the work of IFRIC. An extract from the comment letter analysis is presented in Appendix A.
5. Since the release of the IFRIC Review of Operations for public comment, there has been discussion at a number of events about the possibility and the 'danger' of multiple interpretations, particularly national interpretations of IFRS. The views expressed include:
 - a. Growing support for one interpretative body, the IFRIC.
 - b. General recognition by preparers and audit firms who operate internationally of the need for consistent application of IFRS. Those organisations are aware that the SEC will be considering not only content of IFRS, but the quality of the implementation of IFRS before it considers removing the requirement to reconcile to US GAAP.
 - c. A need expressed by some countries for greater specification of requirements and more guidance. Some view this as a need for more certainty in what is a period of significant change for some from national GAAP to IFRS. This has been expressed by preparers, auditors, NSS and country regulators.
 - d. Concern by some that the large audit firms are de facto the interpreters of IFRS.
 - e. Concern by some that regulators will become a source of interpretation once they start reviewing and potentially requiring restatement of financial statements prepared in accordance with IFRS.
6. Over the same time the IASB has been discussing with NSSs worldwide a statement of the relationships between the IASB (including the IFRIC) and NSSs.¹ [Last sentence deleted].

Staff analysis

7. The IASB and the IFRIC cannot prevent NSSs / NIGs from issuing interpretations. However, the Draft Statement of Best Practice indicates that NSSs should request IFRIC to address issues that require interpretation. It also indicates that in considering local issues, an NSS should liaise with the IFRIC.
8. The IASB, the IFRIC and the staff in their dealings with NSSs and NIGs should endeavour to encourage NSSs and NIGs to operate in the spirit of the Draft Statement of Best Practice.
9. We have received assistance from NSSs with some IFRIC issues. The staff is grateful for that assistance. The extent of involvement of NSSs in the IFRIC due process (beyond raising an issue for IFRIC's consideration) is a matter of available expertise among the staff. Specifically the involvement of external organisations in staff work is the responsibility of the Director of Technical Activities, taking account of the

¹ This was formerly referred to the Draft Memorandum of Understanding. Following discussion at the September 2005 meeting of the IASB with World Standard Setters about the nature of the document, the latest draft is titled *Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters*.

requirement for IASB staff to be independent. Obviously there is input from the IFRIC Co-ordinator on IFRIC matters.

10. There are many sources of requests to the IFRIC for interpretations, including preparers, audit firms, and some NSSs. As noted in the current IFRIC Preface (and in the draft IFRIC Due Process Handbook), the primary responsibility for identifying issues to be considered by the IFRIC is that of its members and observers. IFRIC members and observers should bring to the staff's attention any situation where they identify an issue which a NSS / NIG is considering, which appears to be a matter with wider applicability than one jurisdiction; and particularly where the proposed interpretation under consideration by the NSS / NIG is of concern to the IFRIC member or observer. The staff would appreciate the issue being presented with analysis which addresses the criteria for adding an item to the IFRIC's agenda.
11. It is not feasible for the staff to monitor the work of every NSS and NIG worldwide. In the staff's view it is more efficient for us to consider (with the IFRIC Agenda Committee) matters that are raised by NSSs / NIGs, IFRIC members and observers, and others; rather than spend time searching for matters which may be inappropriate interpretations. The IASB and the IFRIC are not monitoring or regulatory organisations. Those responsibilities lie elsewhere. The role of the IFRIC is to deal efficiently with matters raised with it.
12. In the staff's view it is possible to distinguish between the EITF and NIGs that claim to be interpreting IFRSs. Monitoring the latter is effectively 'policing' under a different name. As noted above, the IASB and the IFRIC are not regulators. Monitoring the EITF however is a matter of convergence. Similarly, monitoring FASB Staff Positions (FSPs). A case can be made for liaison between IASB staff and FASB staff to reduce the risk of the IFRIC / the EITF / FSPs developing divergent solutions on converged standards. IFRIC members and observers should bring to the staff's attention any situation where they identify that a proposed interpretation / FSP of a converged standard is potentially divergent.
13. It is neither feasible, nor desirable for the IFRIC to 'endorse' or 'frank' interpretations issued by NSS and NIG.
 - a. The IFRIC has a required due process before it recommends to the IASB the issue of an Interpretation. Endorsing an interpretation developed by another organisation (whether NSS, NIG, or regulator) would require the IFRIC to follow its due process.
 - b. Regardless of the public aspects of due process (exposure for public comment and meeting time spent deliberating) staff and IFRIC time would be required to assess the applicability of the issue and scope of the question, in addition to the technical merits of the solution.
 - c. Requests for endorsement would not be limited to difficult issues or those with which the IFRIC and IASB might disagree. They would likely include all interpretations issued by other organisations regardless of whether the IFRIC considered the issue required interpretation.
 - d. IFRIC would in effect lose control over its agenda dealing with matters where it regarded the standard as clear, and where after analysis it concluded it had no concerns about the interpretation issued by the other organisation.

- e. It is not feasible to restrict the organisations whose interpretations the IFRIC will endorse – this is an all or none situation.

14. The IFRIC Due Process Handbook should describe the relationship with NSSs and NIGs as set out below. *The text below is marked up to show changes from the draft presented to the IFRIC in January 2006.*

VII. Relationship with National Standard-Setters and National Interpretative Groups

- 53 The IASB staff liaise with, ~~and monitor the work of,~~ national standard-setters (NSSs) and national interpretative groups (NIGs) to identify interpretative issues that the IFRIC Agenda Committee and the IFRIC might need to consider. IFRIC members and observers are encouraged to identify issues that may indicate emerging divergence in the interpretation of IFRSs. [IFRIC Preface 42 amended]
- 54 NSSs and NIGs are encouraged to refer interpretative issues to the Agenda Committee for the IFRIC's consideration. The IFRIC, however, will not give assurance that a local interpretation is either consistent or inconsistent with IFRSs. [IFRIC Preface 43 amended]

Staff recommendations

15. The staff recommend that:
- a. The IFRIC notes the content of the Draft *Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters* as it relates to interpretation, which has been agreed between the IASB and other standard-setters.
 - b. The IFRIC continues to support NSSs / NIGs bringing issues to the IFRIC for consideration in the usual manner through the IFRIC due process.
 - c. The IFRIC acknowledges the assistance provided by NSSs (from Germany, France, South Africa and Australia) in preparing Issues Summaries for consideration by the Agenda Committee and the IFRIC, and draft interpretations.
 - d. The IFRIC notes that the Director of Technical Activities will involve NSS and other external organisations in staff work for IFRIC where this is necessary and appropriate.
 - e. The IFRIC encourages IFRIC members and observers to bring to its attention issues where there is apparent inappropriate interpretation developing in a national jurisdiction.
 - f. The staff should not monitor actively the work of NSSs and NIGs.
 - g. The IFRIC encourages IFRIC members and observers to bring to its attention issues where a proposed interpretation / FSP of a converged standard is divergent.
 - h. The staff should liaise with FASB staff to reduce the risk of the IFRIC / EITF / FSPs introducing divergence into converged standards.
 - i. The IFRIC should not 'endorse' or 'frank' interpretations issued by others.
 - j. The IFRIC Due Process Handbook should deal with the relationship with NSSs and NIGs as set out in paragraph 13 above.

Questions for the IFRIC

- 16. Does the IFRIC agree that IFRIC members and observers should bring to the staff's attention any situation where they identify an issue which a NSS / NIG is considering, which appears to be a matter with wider applicability than one jurisdiction?**
- 17. Does the IFRIC agree that the staff should not monitor actively the work of NSSs and NIGs?**
- 18. If the IFRIC disagrees, on what basis should monitoring occur?**
 - a. Is monitoring within the IFRIC's role/remit?**
 - b. Which organisations should be monitored?**
 - c. Final output or matters under discussion?**
 - d. Frequency of monitoring and reporting?**
- 19. Does the IFRIC agree that IFRIC members and observers should bring to the staff's attention any situation where a proposed interpretation or FSP will introduce divergence in a converged standard?**
- 20. Does the IFRIC agree that the staff should liaise with FASB staff to reduce the risk of divergence being introduced into converged standards?**
- 21. Does the IFRIC agree that the IFRIC should not 'endorse' or 'frank' interpretations issued by others?**
- 22. Does the IFRIC agree with the section of the draft IFRIC Due Process Handbook set out in paragraph 13 above?**

Appendix A

Extract from Comment Letter Analysis presented to the IFRIC November 2005

Involvement of accounting standard-setters and other interpretative bodies in the work of the IFRIC

47. The consultative document *IFRIC – Review of Operations* noted that IFRIC supports national standard-setters / national interpretative groups (NSS/NIG) bringing issues to IFRIC and/or helping to handle those issues through the IFRIC due process.
48. The consultative document indicated that the IFRIC does not support proliferation of sources of interpretation, but that it and the IASB cannot prevent others from issuing interpretations of IFRS. Accordingly, IFRIC encourages NSS/NIG to bring issues to the IFRIC on the basis that most issues will be global rather than local. However, should a NSS/NIG consider it necessary to develop an interpretation on a matter of local importance, the IFRIC proposed that the NSS/NIG be encouraged to liaise with staff to consider whether the issue is solely local, and to try to identify any incompatibility between the proposed local interpretation and IFRS. The consultative document indicated that NSS/NIG that issue local interpretations should take full responsibility for so doing and should not imply IFRIC endorsement. That is, IFRIC would not provide negative clearance to the effect that there is nothing in the local interpretation that is inconsistent with IFRSs. IFRIC reserved the right to address the issue if it became concerned with either the local interpretation or its implications for other IFRS environments.
49. Comment letters overwhelmingly supported the involvement of NSS/NIG in the IFRIC due process. 22 letters commented positively. None commented against. A number of letters commented that regional organisations such as the European Financial Reporting Advisory Group (EFRAG) should be involved in a similar way to NSS/NIG.
50. Views differed with regard to the manner in which NSS/NIG might interact with the IFRIC. The views reflected the possibilities that were discussed in the consultative document – bringing an issue to the IFRIC; undertaking analysis and development work for the IFRIC; seeking clearance that an issue is local and not global before developing a domestic interpretation; seeking clearance of domestic interpretations from staff or from the IFRIC.
51. A number of comment letters expressed strong views that there be only one interpretations body and/or that there not be a proliferation of interpretations. One commentator expressed the following view:

From a preparer's perspective, an important issue is that only one standard setter has the authority to lay down the rules and the relevant interpretations for a given financial reporting standard independent of which jurisdiction it is applied in or which auditing firm is involved. Recently, there has been a trend by stock-market regulators and audit companies to issue interpretations or guidelines that are affecting application of IFRS. Thus, if IASB considers involvement of other accounting standard-setters as useful or necessary, a prerequisite is that interpretations are accepted to be the sole and exclusive purview of IASB. Otherwise, conflicting requirements will endanger the global reach of IFRS.

52. A number of commentators called for IFRIC or the IASB to be the sole interpretative body with regard to IFRS. Others suggested that the IASC Foundation take steps to discourage a proliferation of sources of IFRS interpretation. A few suggested IFRIC establish a network of regulators, NSS and NIG to coordinate interpretation of IFRS. One suggested that IFRIC state that
- ... a national standard-setter should not publish an interpretation unless it relates to a very narrow, local issue.

53. Others recognised that the IASB and IFRIC cannot prevent others from issuing interpretations of IFRS. For example:

Stating the obvious, IFRIC has no jurisdiction over national standard setters (NSS) or national interpretation groups (NIG).

54. Many commentators acknowledged that most accounting issues requiring interpretation are of a global nature and are not purely local issues. A few disagreed. Those that disagreed frequently saw the need for a greater number of interpretations than IFRIC and other commentators did. In some cases the commentator was concerned to ensure a coordinated national approach. For example:

... we believe there is a need for interpretation that the IFRIC cannot fulfil. IFRSs should remain principle based. It is therefore not the place for IFRIC to develop a whole set of interpretations on the various day to day issues that companies and auditors face. Implementation guidance is currently given by audit firms to their clients and should be coordinated at national level by the NSS. The issues to be addressed would not be limited to those specific to the legislation of the jurisdiction but would also encompass subjects not dealt with by the IFRIC, for example issues not considered important by the IFRIC but which are significant locally.

55. The consultative document indicated that NSS/NIG that issue local interpretations should take full responsibility for so doing and should not imply IFRIC endorsement. That is, IFRIC would not provide negative clearance to the effect that there is nothing in the local interpretation that is inconsistent with IFRSs. Views differed on negative clearance. For example, two contrasting views follow:

1 Where NSSs/NIGs issue domestic implementation guidance, we agree those NSSs/NIGs should take full responsibility for doing so, and should not imply IFRIC endorsement. We would take this one step further and request that they contain a specific statement to the effect that they do not have formal IFRIC endorsement ...

2 We ... believe that the IFRIC should provide negative assurance [sic] of all final Interpretations that purport to interpret IFRSs. ... Our reasons are as follows:

First, the application of IFRSs globally will be damaged if 'domestic' interpretations are permitted to proliferate. In our view, there will be very few issues which are limited to a single jurisdiction. It follows that the need for domestic Interpretations will be minimal and, consequently, the IFRIC workload will not be onerous. ... Domestic Interpretations having to have clearance from the IFRIC to become an authorised part of IFRSs will have the effect of discouraging home-grown Interpretations and more clearly feed into the hierarchy of standards. In this way, the IFRIC is also monitoring the activities of other standard-setters and their interpretative bodies.

Further, we are concerned that domestic Interpretations will tend to reinforce the domestic practices existing prior to the adoption of IFRSs. ...

Third, we do not support domestic interpretations being developed where the IFRIC considers that the underpinning IFRS is clear. ... it is the responsibility of the domestic standard-setter or interpretative body to ensure that ... extra guidance which may conflict with IFRS is not issued.

Finally, a common request for a domestic interpretation may be to address an interpretative issue where parties such as preparers, auditors and regulators are in dispute. ...

56. One commentator raised an issue about the potential for conflicting interpretations of standards that have been issued following convergence work by the IASB and the US Financial Accounting Standards Board (FASB), and asked whether issues concerning such standards should be considered by both the Emerging Issues Task Force (EITF) of the FASB and the IFRIC.

[APPENDIX B NOT INCLUDED IN OBSERVER NOTE]