



Project	Annual Improvements Project - 2009-2011 cycle
Topic	Sufficiency of criteria for Annual Improvements

Purpose of this paper

1. The purpose of this paper is to request the IFRIC Members' input to a review of the criteria for assessing issues for inclusion within the Annual Improvements process.
2. The Trustees of the International Accounting Standards Committee Foundation (the Trustees) have asked the IASB to give full consideration to whether there are sufficient, publicly available criteria to judge the appropriate scope of Annual Improvements. The Board has also been asked to present the Trustees with enhanced criteria in determining the scope for the Annual Improvements process.
3. The IFRIC has an important role within the Annual Improvements process of reviewing proposed amendments and making a recommendation in relation to those issues to the Board. The IFRIC has first-hand experience of many of the issues that are considered for inclusion in Annual Improvements. The staff therefore requests views and comments from the IFRIC Members to include in the Board's consideration of the criteria for judging the appropriate scope of the Annual Improvements process.

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in *IFRIC Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

Background information

4. The Annual Improvements process commenced in 2006/2007. The first omnibus *Improvements to IFRSs* Exposure Draft was published in October 2007 and the omnibus IFRS was issued in April 2008.
5. The Annual Improvements process was established primarily in response to IFRIC requests for changes to standards that are non-urgent and minor in nature. The Board decided that making amendments to standards was preferable to creating a new category of pronouncements.
6. Annual Improvements are not individual projects but rather they are items of concern with IFRSs that require addressing, but do not justify a project to overhaul the standard concerned.
7. The Annual Improvements process applies the same due process as IASB Board projects, but with two practical differences:
 - (a) First, all issues addressed within an annual cycle are published within an omnibus Exposure Draft (ED) and an omnibus IFRS rather than separate EDs and IFRSs for each issue. This has efficiency benefits for the Board (including the editorial and publications procedures) and constituents.
 - (b) Second, the Annual Improvements process as a whole is subject to periodic consultation with the Trustees and the Advisory Council, rather than on an individual issue basis. Accordingly the criteria by which individual issues within the Annual Improvements process are judged are important.

Identification of issues for inclusion in Annual Improvements process

8. Potential issues for inclusion in the Annual Improvements process are identified from a number of sources. Some are identified by the IASB, some are proposed directly by constituents and others are identified by the IFRIC, as an alternative response to an interpretation request.

9. The IFRIC has taken on an additional role in relation to Annual Improvements during the current cycle, at the Board's request. All current Annual Improvements issues, and any new items for consideration in the next cycle, are reviewed and assessed by the IFRIC.
10. Those issues that are submitted to the IFRIC as potential interpretation issues, will be judged first against the IFRIC's criteria for taking on interpretation issues. In making its assessment against the criteria for interpretations, the IFRIC will sometimes identify that a divergent practice would be best addressed through an amendment to a standard rather than an interpretation.
11. The IFRIC's recommendation for an issue to be addressed in the Annual Improvements process is subsequently reviewed and considered by the Board, before inclusion in the *Improvements to IFRSs* ED.

Current assessment criteria

12. The criteria currently used for judging whether a proposed amendment meets the criteria for inclusion in the Annual Improvements process is that the matter must be a “**non-urgent but necessary amendment to IFRSs**”.
13. When it established the Annual Improvements process in 2006, the Board considered developing a definition for what should qualify for inclusion in the Annual Improvements process. However, comments¹ received from constituents highlighted the difficulties in providing a definition that would be sufficiently flexible to distinguish between minor amendments, significant amendments and editorial changes. Issues proposed for inclusion in the Annual Improvements process are therefore considered individually for their suitability.

¹ Prior to adopting the Annual Improvements process, the Board consulted on a proposed Technical Corrections policy. The Board's consideration of those comments lead it to develop the Annual Improvements process within existing due process, rather than adopt a separate Technical Corrections policy.

Current procedures

14. The current procedures for inclusion of proposed amendments in the Annual Improvements process, involve consideration of the issue by the IFRIC and by the Board. The IFRIC operates by working to reach a consensus within a reasonable period of time. In the staff's opinion, failure to reach consensus within a reasonable timeframe on a proposed issue is a good indication that the matter is not suitable for Annual Improvements.
15. The Trustees have asked the Board to consider fully whether there are sufficient, publicly available criteria to judge the appropriate scope of Annual Improvements and to present the Trustees with enhanced criteria in determining the scope for the Annual Improvements process.

Enhanced assessment criteria

16. The staff notes that there are similarities between the nature of items considered for Annual Improvements and those considered by the IFRIC for interpretation. The staff therefore thinks that assessment criteria modelled on the IFRIC agenda criteria would be helpful for the Annual Improvements process.
17. Appendix A includes draft Annual Improvements assessment criteria, based on the IFRIC agenda criteria.

Staff request

18. The staff requests the IFRIC Members' views and comments on the use of the criteria set out in Appendix A as a basis for judging the appropriateness of an issue for inclusion in Annual Improvements.

Question – Draft assessment criteria for Annual Improvements

- (a) Does the IFRIC agree with the draft proposed assessment criteria set out in Appendix A?
- (b) What other comments does the IFRC have for enhancing the assessment criteria?

Appendix A – Draft proposed assessment criteria for the Annual Improvements process

1. Draft proposed assessment criteria, based on the IFRIC agenda criteria:
 - (a) *The issue is widespread and has practical relevance.*
 - (b) *The issue indicates that there are significantly divergent or unintended practices (either emerging or already existing). The IASB will not address an item within the Annual Improvements process if IFRSs are clear, with the result that divergent or unintended practices are not expected in practice.*
 - (c) *Financial reporting would be improved if the issue is addressed through the Annual Improvements process.*
 - (d) *The issue can be resolved efficiently within the Annual Improvements process.*
 - (e) *It is probable that the IASB will be able to reach agreement on the resolution of the issue on a timely basis.*
 - (f) *If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from that project. The IASB will not include an issue within the Annual Improvements process if an IASB project is expected to resolve the issue within a similar timeframe.*