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Project	<b>Annual Improvements - 2009-2011 cycle</b>
Topic	<b>Proposals for revised criteria for Annual Improvements</b>

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### **Purpose of this paper**

1. The purpose of this paper is to request the Board's views and comments on proposals for revisions to the criteria used for assessing the suitability of issues for inclusion in *Annual Improvements*.

### **Background**

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* and to present the Trustees with enhanced criteria in determining the scope for *Annual Improvements*.
3. The Trustees' request is in response to criticisms that have been made that it is difficult for constituents to assess from the current criteria whether Annual Improvements is the appropriate mechanism through which to address particular issues.
4. *Annual Improvements* was established in 2006, primarily in response to requests from the IFRS Interpretations Committee 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.

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

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 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 IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

5. Potential issues for inclusion in *Annual Improvements* 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 Interpretations Committee, as a more appropriate response to an interpretation request.

### Current assessment criteria

6. The general criteria that are considered when assessing any IASB project, as set out in paragraph 21 of the IASB Due Process Handbook, are:
  - a. the relevance to users of the information and the reliability of information that could be provided
  - b. whether existing guidance available
  - c. the possibility of increasing convergence
  - d. the quality of the standard to be developed.
  - e. resource constraints
7. The specific criteria currently used for judging whether a proposed amendment meets the criteria for inclusion in *Annual Improvements* is that the matter must be a “**non-urgent but necessary amendment to IFRSs**”.
8. When it established *Annual Improvements* in 2006, the Board considered developing a definition for what should qualify for inclusion in *Annual Improvements*. However, comments<sup>1</sup> 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 *Annual Improvements* are therefore considered individually for their suitability.

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<sup>1</sup> 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.

## Input from the IFRS Interpretations Committee and constituents

9. The question of revising the criteria for *Annual Improvements* was raised with the Interpretations Committee at its March 2010 meeting. The paper presented to the Committee for their consideration drew comparisons between the *nature* of the items appropriate for the Committee's Interpretations agenda, and the nature of items appropriate for *Annual Improvements*. The paper also drew comparisons between the *process* used to identify interpretative issues and the process applicable for identifying *Annual Improvements*. The committee acknowledged the similarities but expressed the view that the criteria developed for *Annual Improvements* should distinguish potential *Annual Improvements* from potential Interpretations.
10. Discussions were also held with selected constituents, who have been the source of some of the proposed amendments over the last few years. Their comments have been applied in describing the nature of the issues appropriate for *Annual Improvements* and the nature of issues appropriate for Interpretation. Some constituents commented that draft interpretations and exposure drafts for separate Board amendment projects tend to receive greater scrutiny during the comment process compared with the omnibus of issues in *Annual Improvements*. They argue, therefore, that changes that are more fundamental to the existing principles in IFRSs should not be addressed through *Annual Improvements*.

## Nature and efficiency

11. The following analysis considers:
  - (a) The nature of the issues giving rise to the requests for guidance
  - (b) The need to remain within the bounds of existing principles and to understand the consequence of proposed amendments
  - (c) The practical requirements for *Annual Improvements* to be effective and efficient

## Nature of issues

12. Issues that are proposed as potential *Annual Improvements* and potential Interpretations typically arise from a lack of clarity in the current literature. That lack of clarity could be due to the existence of problematic wording, or the absence of guidance.
13. The staff thinks that the cause of that lack of clarity should determine whether the appropriate remedy is an annual improvement, an Interpretation or whether the issue needs to be resolved as part of a broader Board project to revise the standard concerned.
14. The following are examples of the types of issues that have been addressed through **Annual Improvements**:
  - (a) Clarification of unclear wording in existing IFRSs
  - (b) Resolving conflicts between requirements: resolution of conflicts between detailed rules, either within an IFRS or between IFRSs (but within the confines of existing principles)
  - (c) Addressing oversights and unintended consequences
  - (d) Providing additional guidance, in accordance with existing principles
15. The following are examples of the types of issues that have been addressed through **Interpretations**:
  - (a) Creating guidance where none exists, sometimes involving the interaction of two or more IFRSs
  - (b) Addressing conflicts between principles, either within an IFRS or between IFRSs
  - (c) Describing the meaning of a concept (beyond the clarification of unclear wording)
  - (d) Clarifying scope: identifying which IFRS applies for classes of transactions not explicitly referenced by the scope of an IFRS

16. The staff thinks that retaining a focus on providing clarification of unclear IFRS requirements and addressing application inconsistencies due to conflicts between IFRSs is appropriate for *Annual Improvements*.

### **Breadth of focus and effect**

17. The IFRS Interpretations Committee Due Process Handbook (paragraph 24) requires that interpretive issues are sufficiently narrow in scope to be capable of interpretation. The staff thinks that *Annual Improvements* should also have a similarly narrow focus. This would be consistent with the original intention that such amendments are ‘minor’. A requirement for a narrow focus helps draw a distinction between what is appropriate for *Annual Improvements* and what is appropriate for a separate, broader Board project. Consequently, issues that are broad should be addressed through a separate Board project, rather than an interpretation.
18. A consequence of a narrow focus should be that the effect of the proposed amendment is readily identifiable. The staff thinks that part of the assessment of a proposal’s suitability for *Annual Improvements* should be consideration of the impact of the amendment. To qualify for *Annual Improvements*, the effect should be readily identifiable. However, the staff thinks that this should be distinguished from assessing whether the amendment changes practice significantly.
19. Most issues referred for interpretation or *Annual Improvements* are referred because of emerging or existing diversity of practice. Inevitably, any clarification or change in requirements will lead to a change in practice by some preparers. The significance of that change will likely reflect the degree to which practices were divergent; the greater the divergence in practice, the greater the change that is likely to result from the amendment for some preparers. Significant change itself should not preclude an amendment being included in *Annual Improvements*, but the extent of that change should be properly understood.

## Efficiency of applying the *Annual Improvements* process

20. Issues addressed by *Annual Improvements* are intended to be minor in nature. A practical consequence of that assertion should be that the Board (and the IFRS Interpretations Committee, in its role) is able to reach agreement on how the issue should be resolved within a reasonably short period of time. Failure to do so would suggest that the issue reflects a more fundamental problem with the standard that would be better addressed in another way.
21. The *Annual Improvements* process operates on a cycle, with an omnibus exposure draft published in August, an omnibus IFRS published the following April, with an effective date of the following January. This cycle means that the shortest period of time between an issue being discussed by the Board and it becoming mandatorily effective will be 18 months. When an existing Board project relating to the IFRS affected by the amendment is likely to be finalised in a similar timeframe, it will be more efficient to incorporate the amendment within that project.
22. The staff thinks that the criteria used for assessing *Annual Improvements* should require consideration of the efficiency of referring the issue to an active Board project.

## Criteria for Annual Improvements

23. The following are the proposed criteria to be considered when assessing the appropriateness of a proposed amendment for inclusion within *Annual Improvements*:
- (a) *Does the proposed amendment maintain consistency with the existing, applicable principles? An amendment that proposes a new principle, or a change to an existing principle, is not suitable for Annual Improvements.*
  - (b) *Does the proposed amendment improve IFRSs through:*
    - (i) *Clarifying unclear wording in existing IFRSs;*
    - (ii) *Resolving a perceived conflict between existing requirements of IFRSs;*
    - (iii) *Addressing an oversight or undesirable consequence of the existing requirements of an IFRS; or*
    - (iv) *Providing guidance where a current lack of guidance is causing concern.*
  - (c) *Does the proposed amendment have a narrow and well defined purpose? i.e., have the consequences of the proposed change been considered sufficiently and identified?*
  - (d) *Is it probable that the Board will reach agreement on the issue on a timely basis? An inability to reach agreement on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within Annual Improvements.*
  - (e) *If the proposed amendment is to an IFRS that is the subject of a current or planned IASB project, is there a pressing need to make the amendment sooner?*
24. The staff recognises that assessing the appropriateness of issues for inclusion in *Annual Improvements* will require judgement to make that determination.

However, the staff thinks that formalisation of the criteria above will provide a useful framework for making that assessment.

25. The staff therefore recommends that the criteria set out in paragraph 23 be incorporated into the IASB Due Process Handbook as the basis for assessing the suitability of a proposed amendment for inclusion in *Annual Improvements*.

**Question 1 – Criteria for assessment of scope of Annual Improvements**

Does the Board agree with the staff's recommendations for the scope criteria for use in *Annual Improvements*?