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*This document is provided as a convenience to observers at IFRS Foundation meetings, to assist them in following the discussion.*

## INFORMATION FOR OBSERVERS

**IFRS Foundation Trustees Meeting, Tokyo, 10 February 2011**

### AGENDA PAPER 11B

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#### Memorandum

**To:** Trustees Due Process Oversight Committee

**From:** Michael Stewart  
*IASB Director of Implementation Activities*

**Date:** 10/11 February 2011

**Re:** The annual improvement process –Proposals to amend the *Due Process Handbook* for the IASB

#### Purpose of this paper

1. The objective of this paper is to present to the Trustees:
  - (a) a summary of the main comments received on the proposed amendments to the IASB Due Process Handbook
  - (b) the proposed new wording for the amendments to the proposed qualifying criteria for annual improvements included in the IASB Due Process Handbook based on the results of the comment letter analysis, the Board's and the IFRS Interpretations Committee's views on the respondents' comments

- (c) a list of respondents to the invitation to comment together with demographic information
2. **Appendix A** to this Paper contains a detailed analysis of the comments and recommendations that the staff received on the proposals to amend the IASB's Due Process Handbook. This has already been discussed by members of the IFRS Interpretations Committee (hereafter, the Interpretations Committee) and by the Board, and is therefore provided to the Trustees for information purposes.

## **Background**

3. In August 2010, the Trustees published for public comment a Consultation Document which sets out a proposal to add new paragraphs to the IASB Due Process Handbook relating to the annual improvements process.
4. The proposed amendments to the IASB Due Process Handbook are intended to provide enhanced criteria to assist the IASB and interested parties on determining whether a matter relating to the clarification or correction of IFRSs should be addressed using the annual improvements process. The Consultation Document sought views on the sufficiency and appropriateness of these proposed criteria.
5. The comment period ended on 30 November 2010. 37 comment letters were received; approximately 21% arrived after the requested deadline.
6. At the 6 January 2011 Interpretations Committee meeting, the staff presented the Interpretations Committee with a summary of the comments received on the proposed amendments to the IASB Due Process Handbook, asking for its views, to help shape recommendations to the Trustees. The Board discussed the Interpretations Committee members' views at the 20 January, 2011 Board meeting and agreed with the Interpretations Committee's suggested modifications.

## **Summary of the main changes proposed to the annual improvements criteria**

7. A great majority of the respondents welcome the formalisation of the due process for annual improvements. They broadly support the inclusion of the proposed criteria in assessing whether a matter relating to the clarification or correction of IFRS should be amended through the annual improvements process or through a separate project. However, some respondents had reservations about some aspects of the proposed criteria.

8. The following amendments were proposed to address their concerns:

***Remove the last phrase in paragraph 65A(a)(ii) that a correcting amendment ‘may create an exception from an existing principle’.***

9. The staff supports removing the phrase ‘but may create an exception from an existing principle’ from paragraph 65A(a)(ii) of the Consultation Document, as in practice, most of the amendments denoting exceptions have been introduced to address minor oversights or unintended consequences, or have been based on an extension of a scope exception in existing IFRSs, rather than the introduction of a new exception.

***Remove from paragraph 65A(d) the reference to a ‘pressing’ need and refer instead only to the ‘need’ to make the amendment sooner than an IASB project would***

10. The staff observed that there could be a potential confusion between the word “pressing” and the ‘non-urgent’ characteristic attributable to annual improvements amendments, because even though annual improvements introduce amendments to IFRSs in a quicker way than a current or planned IASB project would do, annual improvements amendments are not meant to be instant or immediate amendments to IFRSs.

***Communicate better the link between the annual improvements process and other stages of the IASB standard-setting process***

11. The staff suggests an addition to paragraph 27A to provide a clearer explanation to constituents of the following aspects:

- (a) that the annual improvements process follows the same due process as any other standard-setting project conducted by the IASB; and
- (b) that the annual improvements work is mainly led by the IFRS Interpretations Committee and is approved by the Board.

***Clarify in paragraph 65A(b) the phrase ‘narrow and well-defined purpose’***

12. The staff proposes refining the language used in paragraph 65A(b) for clarification purposes.

***Clarify the distinction between an annual improvement amendment and an interpretation***

13. Approximately one third of the respondents suggest the Foundation provide additional guidance to determine when a clarification of a specific principle in existing IFRSs

should be addressed as part of the annual improvements process and when it should be handled through the development of an Interpretation. Respondents do not provide specific insight on how they think the two processes could be differentiated.

14. The staff compared the criteria in paragraph 65A (a) – (d) included in the Consultation Document against the criteria in paragraph 24 (a) – (f) of the *IFRIC Due Process Handbook*. The criteria among them are alike because the source and the nature of the issues addressed under the annual improvements process and the interpretation process are similar for both (both processes address a lack of clarity in IFRSs and arise from the practical application of the Standards).
15. The staff thinks that annual improvements and interpretations both simplify standards by clarifying existing principles. However the degree of complexity of a clarifying change could be a parameter for distinguishing changes produced by an annual improvement or by an interpretation, as shown below:
  - (a) An annual improvement would be a relatively straightforward amendment of a part of an existing IFRS and a more efficient way of addressing the issue of concern; whereas,
  - (b) An interpretation would provide guidance for an existing IFRS, could provide guidance for an issue that is not covered in an IFRS, and might include amendments to a particular IFRS. The following characteristics are common to interpretations. They:
    - (a) have a narrow scope
    - (b) include an extended analysis of the circumstances that gave rise to the request
    - (c) contain a reference to the IFRS (or IFRSs) that are being interpreted
    - (d) involve the clarification of the principles in the relevant IFRSs, and a description of the manner in which those principles should be applied under specific circumstances
    - (e) may include related consequential amendments to other standards
16. The Interpretations Committee members and the Board supported the staff's initiative to develop criteria to establish a clear distinction between annual improvements and interpretations and they thought that this distinction should be developed further. The staff recommends holding back the conclusion of this matter until the results of the Interpretations Committee effectiveness review, which is currently in progress, have been considered, regarding the distinction between annual improvements and interpretations.

### **Changes to the proposed annual improvements criteria**

17. The staff is proposing the following amendments to the proposed qualifying criteria for annual improvements:

27A When considering whether to add an item to its active agenda, the IASB may determine that it meets the criteria to be included in the annual improvements process described in paragraph 65A. Once this assessment is made, the amendments included in the annual improvements process will follow the same due process as other IASB projects. The primary objective of the annual improvements process is to enhance the quality of IFRSs by amending existing IFRSs to clarify guidance and wording, or correcting for relatively minor unintended consequences, conflicts or oversights.

65A In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against the following criteria. All criteria (a)–(d) must be met to qualify for inclusion in annual improvements.

(a) The proposed amendment has one or both of the following characteristics:

(i) clarifying—the proposed amendment would improve IFRSs by:

- clarifying unclear wording in existing IFRSs, or
- providing guidance where an absence of guidance is causing concern.

A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.

(ii) correcting—the proposed amendment would improve IFRSs by:

- resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or
- addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.

A correcting amendment does not propose a new principle or a change to an existing principle, ~~but may create an exception to an existing principle.~~

(b) ~~The proposed amendment is has a narrow and well-defined purpose and sufficiently narrow in scope such that, ~~ie~~ the consequences of the proposed change have been considered, sufficiently and identified.~~

(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.

(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a ~~pressing~~ need to make the amendment sooner than the project would.

65B The IASB assesses annual improvements against the criteria in paragraph 65A before they are published in an exposure draft and before they are issued as amendments to IFRSs.

## Demographic information on the respondents

The following table contains a list of the respondents to the invitation to comment.

CL#	Respondents	Respondent Type	Respondent Industry	Geography
1	Malaysian Accounting Standards Board (MASB)	Standard Setter	Accounting	Malaysia
2	Accounting Standards Board (ASB)	Standard Setter	Accounting	UK
3	Group of 100	Preparer	Various	Australia
4	Linus Low	Individual		Singapore
5	Belgian Accounting Standards Board	Standard Setter	Accounting	Belgium
6	Dutch Accounting Standards Board	Standard Setter	Accounting	Netherlands
7	Institute of Chartered Accountants of Scotland	Accountancy Body	Accounting	Scotland
8	Australian Accounting Standards Board	Standard Setter	Accounting	Australia
9	The South African Institute of Chartered Accountants	Standard Setter	Accounting	South Africa
10	Grant Thornton	Accounting Firm	Accounting	International
11	Korea Accounting Standards Board	Standard Setter	Accounting	Korea
12	Institute of Chartered Accountants in England & Wales (ICAEW)	Accountancy Body	Accounting	UK
13	Mazars	Accounting Firm	Accounting	International
14	L.Venkatesan	Individual	Academic	India
15	Rakesh Choudhary	Individual	Unspecified	India
16	Committee of European Securities Regulators	Regulator	Accounting	International
17	Accounting Standards Council of Singapore	Standard Setter	Accounting	Singapore
18	Ernst & Young	Accounting Firm	Accounting	International
19	British Bankers Association	Preparer	Banking	UK
20	Larsen & Toubro Limited	Preparer	Technology	India
21	PricewaterhouseCoopers	Accounting Firm	Accounting	International
22	Institute of Certified Public Accountants in Ireland (ICAI)	Accountancy Body	Accounting	Ireland
23	Deloitte	Accounting Firm	Accounting	International
24	HSBC	Preparer	Banking	UK
25	Canadian Accounting Standards Board (AcSB / CNC)	Standard Setter	Accounting	Canada
26	Hong Kong Institute of Certified Public Accountants	Accountancy Body	Accounting	International
27	Federation of European Accountants (FEE)	Accountancy Body	Accounting	Europe
28	BDO	Accounting Firm	Accounting	International
29	Association of Chartered Certified Accountants (ACCA)	Accountancy Body	Accounting	UK
30	KPMG	Accounting Firm	Accounting	International
31	The Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF)	Standard Setter	Accounting	Mexico
32	UBS	Bank	Accounting	International
33	Organismo Italiano de contabilita	Standard Setter	Accounting	International
34	EFRAG	Standard Setter	Accounting	Europe
35	Norsk RegnskapsStiftelse	Standard Setter	Accounting	Europe
36	Autorite des Normes Comptables (ANC)	Standard Setter	Accounting	Europe
37	Denise Silva Ferreira Juvenal	Individual		Brazil

## Appendix A – Detailed comment letter analysis (including views from the IFRS Interpretations Committee and the IASB Board)

**Note: Appendix A is provided for information purposes.**

### **The purpose of the *Annual Improvements* process**

1. As originally envisioned, the purpose of the Annual Improvements process was to reduce the administrative burden for potential respondents. Rather than make respondents think about, say, ten separate amendments throughout the year they would be able to send in one letter commenting on those matters of particular interest to them.
2. Attaining corporate sign-off for a comment letter can be burdensome, so the intention was to reduce the administrative cost (or overhead) associated with each amendment. However, it is important to emphasise that:
  - (a) The IASB applies its full due process to each individual amendment as if it is a stand-alone improvement;
  - (b) Even if the IFRS Interpretations Committee is involved in the process it is the Board that issues amendments to IFRSs (and interpretations) after considering the issues and the recommendations of the Interpretations Committee; and
  - (c) The only ‘concession’ in the process is that unrelated proposals are included into one document.
3. The Board was concerned that some people did not understand the annual improvements process. A complaint to the Trustee’s Due Process Oversight Committee suggested that one or more major changes had been included in an annual improvements package along with other less significant changes.
4. Accordingly, the due process proposals were designed to clarify the purpose of the annual improvements process and help the Board identify which matters could be exposed along with other unrelated changes. It is with this in mind that the Board identified factors that suggest that a matter is likely to be relatively straightforward.

### **Comment letter analysis**

5. A great majority of the respondents welcome the formalisation of the due process for annual improvements. They broadly support the inclusion of the proposed criteria in

assessing whether a matter relating to the clarification or correction of IFRS should be amended through the annual improvements process or through a separate project.

### ***Reservations about the criteria***

6. However, some respondents have reservations about different aspects of the proposed criteria, notably:
  - **Issue 1:** disagreement with allowing an annual improvement to create an exception to a principle, as proposed in paragraph 65A(a)(ii) (after second bullet)
  - **Issue 2:** disagreement with the words “pressing need”, as proposed in paragraph 65A(d).
7. Also, some respondents addressed other concerns. These are analysed in **Issue 3:**
  - **Issue 3.1** – concerns that the meaning of “resolving a conflict” and “addressing an oversight” are not clear—as used in the second bullet of paragraph 65A(a)(ii)
  - **Issue 3.2** – the absence of a clear link between the annual improvements process and the stages of the IASB standard-setting process in paragraph 65B
  - **Issue 3.3** – the reference to ‘a narrow and well-defined purpose’ is unclear in paragraph 65A(b)
  - **Issue 3.4** – the last sentence in paragraph 65A(c), dealing with the ability to reach a conclusion on a timely basis, is considered by some to be an inappropriate basis for assessment through annual improvements
8. As an additional main concern, a majority of respondents urge the Foundation to:
  - **Issue 4** – clarify the distinction between the criteria for the annual improvement process and the interpretation process
9. Finally, the paper provides a summary of other concerns expressed by respondents that were not specifically addressed as part of the proposed qualifying criteria and that do not affect the proposed qualifying criteria for annual improvements.



## Issue 1: Creation of exceptions from an existing principle (par 65A (ii))

10. Paragraph 65A(a)(ii) of the Consultation Document states that:

‘...A correcting amendment does not propose a new principle or a change to an existing principle, but may create an exception from an existing principle’ (emphasis added).

11. Almost half of the respondents (CL 3, CL 4, CL 5, CL 6, CL 7, CL 8, CL 12, CL 17, CL 18, CL 19, CL 21, CL 31, CL 32, CL 33, CL 34, CL 36) firmly disagree with the proposition of allowing exceptions from existing principles. Some of them highlight a contradiction with paragraphs 65A(a)(i) and (ii) which state that:

‘A clarifying amendment does not propose a new principle, or a change to an existing principle’.

12. The most important reasons why respondents feel concerned about allowing exceptions to existing principles are summarised below. In their view, exceptions:

- (a) *reflect a move towards a rules-based approach in standard setting* – some respondents (CL 3, CL 4, CL 5, CL 7, CL 12, CL 21, CL 34, CL 35, CL 36), are concerned that the introduction of exceptions to the principles in the Standards might well generate rules in standard setting, which will eventually weaken existing principles;
- (b) *are very specific* – one respondent (CL 12) claimed that exemptions are not good way forward because sometimes they respond to a specific issue in practice which could be very narrow in scope and be limited to a particular industry;
- (c) *suggest that principles in IFRSs are weak* – a couple of respondents (CL 17 and CL 21) observe that introducing exceptions would suggest weakness of existing principles. As CL 21 states:

“if guidance was not considered necessary when the original standard was approved ...this suggests that the principle within the original standard was poorly expressed”.
- (d) should not be addressed by the IFRS Interpretations Committee, only by the IASB (CL 3)
- (e) *are very rare*, therefore, as one respondent (CL 27) indicates, this should be indicated in the proposed criteria

### **Staff analysis and recommendation**

13. In practice, some annual improvements have addressed an oversight or a minor unintended consequence of the existing requirements in IFRSs to bring specific Standards in line with existing general principles in IFRSs. However, it has not been the purpose to introduce *new* exceptions to the application of an existing principle that are neither based on a general principle nor on an extension of scope exception in existing IFRSs; for instance, introducing an exception for a recognition of a liability at other than fair value or amortised.
14. As examples of amendments that have brought into line existing IFRSs, the staff identified the amendment made to *IFRS 2 Share-based Payment* (paragraph 5) in April 2009. This amendment modified IFRS 2 to exclude from its scope, a combination of entities or business under common control, or the contribution of a business on the formation of a joint venture<sup>1</sup>. This amendment was made to bring IFRS 2 in line with IFRS 3's scope exclusion for combinations for entities under common control. As the Board noted in BC24C and BC24D of *Improvements to IFRSs* issued in April 2009:

BC24C The Board noted that during the development of revised IFRS 3 it did not discuss whether it intended IFRS 2 to apply to these types of transactions. The Board also noted that the reason for excluding common control transactions and the accounting by a joint venture upon its formation from the scope of revised IFRS 3 was to give the Board more time to consider the relevant accounting issues. When the Board revised IFRS 3, it did not intend to change existing practice by bringing such transactions within the scope of IFRS 2, which does not specifically address them.

BC24D Accordingly, in *Improvements to IFRSs* issued in April 2009, the Board amended paragraph 5 of IFRS 2 to confirm that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of IFRS 2.

15. The example noted above also confirms that the annual improvements process is a faster mechanism to address an oversight or relatively minor unintended consequence of the existing requirements in IFRS; this is, sooner than an IASB project would (as respondent in CL 25 notes).
16. On the other hand, however, the staff identified some few instances where the annual improvements process has introduced some exceptions to the application of general principles for first-time adopters of IFRSs. Had the exceptions not been introduced for this particular group, first-time adopters would have faced relevant practical

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<sup>1</sup> This amendment can be found in *Improvements to IFRSs* (April 2009), pages 7–8.

challenges (ie costs of producing information outweighing the benefits). For example, in *Improvements to IFRSs* issued in May 2010<sup>2</sup>:

- (a) the Board extended the scope of paragraph D8 in IFRS 1 *First-time Adoption of International Financial Reporting Standards* for the use of the deemed cost exemption for an event driven fair value. The rationale behind this was that local law required an entity to revalue its assets and liabilities to fair value for a privatisation or initial public offering (IPO) and to treat the revalued amounts as deemed cost for the entity's previous GAAP. Had the amendment not been done, the entity could not have used that revaluation as deemed cost for IFRSs and would have had to prepare two sets of measurements for its assets and liabilities—one to comply with IFRSs, and one to comply with local law.
  - (b) Similarly, paragraph D8B was included in Appendix D of IFRS 1 to permit first-time adopters with operations subject to rate regulation, to use as deemed cost at the date of transition to IFRSs the carrying amount of the items of property, plant and equipment or intangible assets determined under the entity's previous GAAP (instead of restating those items retrospectively, or use fair value as deemed cost), to avoid first time adopters significant practical costs.
17. With the examples above, the staff would like to emphasise that in the event that exceptions are introduced, these do not have the objective of contradicting or changing existing principles in IFRSs on a broad or general basis. Rather, the introduction of exceptions is intended to prevent the application of an existing principle by a specific and narrowly defined group of entities or to a specific and narrowly defined group of transactions.
18. Members of the Committee have noted that whenever annual improvements have introduced exceptions to the application of an existing principle these have been mainly to address an oversight or relatively minor unintended consequence of the existing requirements in IFRS. They also observed that exceptions have been based on an extension of a scope exception in existing IFRSs.

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<sup>2</sup> This amendment can be found in *Improvements to IFRSs* (May 2010), pages 9–14.

19. The staff supports removing the phrase ‘but may create an exception from an existing principle’ from paragraph 65A(a)(ii) of the Consultation Document, as in practice, most of the amendments denoting exceptions have been introduced to address minor oversights or unintended consequences. It is not the intention to use annual improvements as a mechanism to expose *new* exceptions to the application of existing principles. The staff thinks that the introduction of new exceptions is better addressed in a separate IASB technical project.
20. The staff, however, has made the point that in some few circumstances, annual improvements might restrict the application of general principles for practicality reasons, however, the staff agrees that this is not in substance what annual improvements are meant for. In addition, the staff does not suggest adding to the proposed criteria that these exceptions will happen only in rare circumstances as this reference would raise much speculation on when these changes could be made.
21. Therefore, the staff proposes deleting the last phrase in paragraph 65A(a)(ii), as follows:

“A correcting amendment does not propose a new principle or change to an existing principle. ~~but may create an exception from an existing principle.~~”

## **Issue 2 – ‘Pressing need’ to make an amendment sooner (par 65A(d))**

22. Paragraph 65A(d) of the Consultation Document allows the Board to make amendments to IFRSs that are the subject of a current or planned IASB project if there is a “pressing need” to make the amendment sooner.
23. The responses received indicate that:
  - (a) only three respondents (CL 12, CL 25, CL 35) support the notion of ‘pressing need’
  - (b) approximately 20% of the respondents (CL 2, CL 4, CL 9, CL 21, CL 28, CL 31, CL 32) think that the ‘pressing need’ notion should be eliminated
  - (c) three respondents (CL 4, CL 17, CL 27) note a contradiction between the ‘pressing need’ notion in paragraph 65A(d) and the notion that an amendment should be ‘non-urgent but necessary’ in the second introductory paragraph of the Consultation Document

- (d) three respondents (CL 12, CL 32, CL 34) think that paragraph 65A(d) should mention that the amendment has to be ‘sufficiently important’ or ‘necessary’
24. The respondents who think that the ‘pressing need’ notion should be eliminated from paragraph 65A(d) give the following reasons:
- (a) it is not realistic to amend an IFRS that will shortly be substantially revisited (CL 2);
  - (b) it is unacceptable to make amendments to IFRSs that are still in process of completion, so paragraph 65A(d) should be deleted (CL 31);
  - (c) if the amendment is urgent then it should be addressed in a quicker manner;
  - (d) the adjective “pressing” is redundant because the word “need” is already in the context of making the amendment sooner than the project would (CL 25);
25. Some respondents think that if an issue is “pressing” then it should be addressed in a quicker way outside the annual improvements process. For example, some respondents proposed other mechanisms that could be used:
- (a) one respondent (CL 4) thinks that the consultation process (described in paragraph 100 of the IASB Due Process Handbook) could be accelerated even more; or,
  - (b) another respondent (CL 32) thinks that the issue should be analysed under the ‘urgency’ factor as stated in paragraph 56 of the *IASB Due Process Handbook*:  
  
‘The IASB considers whether the project would address the needs of users across different jurisdictions, taking into account the following factors:
    - ‘urgency –whether requests have been received from constituents, with reasonable justifications, that the IASB should address the issue as a matter of priority’;
26. In addition, some respondents note a contradiction between paragraph 65A(d) and the second introductory paragraph of the Consultation Document which states that:
- “...Amendments are made to IFRSs through the annual improvements process when the amendment is considered non-urgent but necessary” (emphasis added).
27. According to those respondents that contradiction arises because:
- (a) an annual improvements process intended to deal with “non-urgent” amendments to the IFRSs cannot have at the same time a “pressing need” nature (CL 4, CL 17);

- (b) the concept of “urgency” is not addressed or defined within the *IASB Handbook* and should be clarified (CL 27, CL 34);
  - (c) if the amendment is non-urgent and the IASB agenda covers that issue, the amendment should not be made within annual improvements (CL 27);
28. Only one respondent (CL 8) suggests incorporating the notion of ‘non-urgent but necessary’ as part of the qualifying criteria.
29. Other views from respondents are:
- (a) when referring to the ‘pressing need’ of making the amendment sooner than the project would, one respondent (CL 21) thinks that it should be specified that the project refers to a “completed project and available for adoption”
  - (b) ‘pressing need’ as a characteristic should be clarified and be carefully balanced with the relevance of the potential improvement itself and the needs of users (CL 2, CL 34) and the likely timescale of completion of the current or planned IASB project (CL 2, CL 27, CL 34).
  - (c) CL 36 notes that in some occasions, other projects outside the annual improvements process have addressed amendments of a ‘pressing need’ nature.

***Staff analysis and recommendation***

30. Respondents have found the wording in paragraph 65A(d) somewhat confusing and redundant. The staff also thinks that the inclusion of the ‘pressing need’ factor confuses the ‘non-urgent but necessary’ criteria in the second introductory paragraph of the Consultation Document
31. The Committee observed that there could be a potential confusion between the word “pressing” and the ‘non-urgent’ characteristic attributable to annual improvements amendments, because even though annual improvements introduce amendments to IFRSs in a quicker way than a current or planned IASB project would do, annual improvements amendments are not meant to be instant or immediate amendments to IFRSs as the word ‘pressing’ might suggest, because annual improvements take an average of two years to be finalised. Therefore, the Committee confirmed in their view that annual improvements amendments are considered non-urgent but faster amendments than those made as part of a current or planned IASB project. In addition, some Committee members think the IASB Due process Handbook should provide an

explanation of other types of amendments to IFRSs that are intended to address issues in a more urgent way, such as separate or stand-alone projects.

32. In assessing whether a potential amendment should be made, the Board will assess whether the amendment is of the type (a clarifying or correcting amendment that is straightforward and non-contentious) that is appropriate to be included in Annual Improvements with other unrelated amendments. However, the Board will also consider whether the clarification or correction is needed. All changes to IFRSs involve some degree of response, whether by constituents commenting on proposals, lawmakers and other regulators incorporating the change in local regulations, or preparers, auditors and users of financial statements assessing the impact of the amendment. The Board will therefore consider whether the need for the clarification or correction, and the improvement that it will bring to financial reporting, justifies the efforts required, notwithstanding the efficiencies that are achieved by accumulating several amendments together in Annual Improvements
33. Therefore, to eliminate the confusion, the staff proposes the following amendment to paragraph 65A(d):
  - (d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a ~~pressing~~ need to make the amendment sooner than the project would.

### **Issue 3: Other concerns raised by respondents**

#### ***Issue 3.1 – What does “resolving a conflict” or “addressing an oversight” mean?***

34. One respondent (CL 8) thinks that paragraph 65A(a)(ii) should be clarified to determine whether references to "resolving a conflict" and "addressing an oversight" refers to all major conflicts and oversights or only minor ones. In the respondent's opinion, addressing major conflicts and oversights in IFRSs would be beyond the scope of a correction and therefore, outside the annual improvements process.
35. Another respondent (CL 36) considers that conflicts among standards should be better addressed outside the annual improvements process. With a related concern, one respondent (CL 37) notes that regulations, jurisdictions and laws of specific countries, should be in charge of solving conflicts among Standards, and not the IFRS Foundation.

36. In the staff's view paragraph 65A(a)(ii) addresses relatively minor conflicts and oversights and does not think this issue should be further clarified.

**Issue 3.2 – Unclear link with other stages of the IASB standard-setting process**

37. The same respondent (CL 8) observes that in paragraph 65B, there is no clear link between the annual improvements process and the stages of the IASB standard-setting process, being that that these criteria also affect the development and publication of an exposure draft (stage 4), the development and publication of amendments to IFRSs (stage 5) and the procedures after an IFRS is issued (stage 6).
38. This respondent suggests that paragraph 65B could be expanded to explain that in the process of developing and publishing an exposure draft for annual improvements, *Stage 4: development and publication of an exposure draft* (in paragraphs 38-44 of the *IASB Due Process Handbook*) should be followed. Similar guidance could also be included for the other stages of the standard-setting process.
39. Another respondent (CL 18) raised a similar concern by stating that paragraph 27A, currently located within the *Stage 1* section of the *Due Process Handbook*, should also be placed or referred to within *Stage 2: Project planning section*.
40. From these comments, it is clear that some respondents are not aware that annual improvements are subject to full due process and it is only the exposure mechanism that we are assessing. Paragraph 65B is proposing additional specific guidance on the scope of Annual Improvements to complement the other due process requirements. Accordingly, we are not proposing any change.
41. The Committee members do not propose any further amendments to paragraph 65B as suggested by some respondents because they believe that this paragraph is accurate and clear. However, they suggested the Board to recommend that the Trustees provide a clearer explanation to constituents of the following aspects:
- (a) that the annual improvements process follows the same due process as any other standard-setting project conducted by the IASB; and
  - (b) that the annual improvements work is mainly led by the IFRS Interpretations Committee and is approved by the Board.
42. To address this concern, the staff suggests the following clarification in paragraph 27A of the Consultation Document to provide this explanation about the annual improvements process:



27A When considering whether to add an item to its active agenda, the IASB may determine that it meets the criteria to be included in the annual improvements process described in paragraph 65A. Once this assessment is made, the amendments included in the annual improvements process will follow the same due process as other IASB projects. (...).

**Issue 3.3 – Clarify in paragraph 65A(b) a ‘narrow and well-defined purpose’**

43. CL 8 questions whether paragraph 65A(b) should refer to a “narrow and well defined issue” instead of a “narrow and well- defined purpose” as it argues that an annual improvement should address an “issue” that is well-defined rather than a “purpose” that is well defined.
44. Related to this issue, CL 34 cannot see a clear link between the fact that an amendment could have ‘a narrow and well defined purpose’ and the fact that ‘the consequences of the proposed change have been considered’. He suggests that a way to solve this concern would be to include a separate criterion addressing that the ‘consequences of the proposed change have been considered separately and identified’.
45. The staff understands the concerns raised by those two respondents and proposes some changes to paragraph 65A(b) as follows:

‘(b) The proposed amendment ~~is has a narrow and well-defined purpose and sufficiently narrow in scope such that~~, ~~ie~~ the consequences of the proposed change have been considered, ~~sufficiently and identified~~’.

**Issue 3.4 – Paragraph 65A(c) does not provide an appropriate basis for assessment**

46. One respondent (CL 25) does not think that the last sentence of the third criterion provide an appropriate basis for assessment through the annual improvements process, because reaching a conclusion on an issue is not part of the planning stage of an amendment (because if approved, paragraphs 27A and 65A would be part of the IASB’s project planning stage (Stage 1 in the *IASB’s Due Process Handbook*)). In the respondent’s view reaching a conclusion is only relevant after assessing the other three proposed criteria for the annual improvements process and when an attempt has been made to develop an amendment.
47. The staff can understand the respondent’s concern as the location of paragraph 65A(c) within the project planning stage of the *IASB’s Due Process Handbook* might suggest that the IASB would not have enough information at the planning stage to determine whether it could reach a conclusion on a timely basis. However, the staff thinks that

because an issue would be addressed at two Committee meetings (at least) before a decision is made on whether or not to add an item to the agenda. The Committee members will have opportunity to assess their views on an issue and determine whether they think:

- (a) consensus can reasonably be reached on a certain issue and/or
- (b) the issue is more fundamental than should be addressed as part of annual improvements.

48. Therefore, the staff does not think that any modification should be made to paragraph 65A(c).

#### **Issue 4: Clarify the distinction between an annual improvement amendment and an interpretation**

##### ***Respondents' comments***

49. Approximately one third of the respondents (CL 4, CL 5, CL 6, CL 7, CL 10, CL 12, CL 16, CL 17, CL 18, CL 27, CL 29, CL 3, CL 34, CL 35, CL 36) suggest the Foundation provide additional guidance to determine when a clarification of a specific principle in the existing IFRSs should be addressed as part of the annual improvements process and when it should be handled through the development of an Interpretation. Respondents do not provide specific insight on how they think the two processes could be differentiated.
50. Some respondents (CL 4, CL 5) also notice the overlap between the proposed criteria for annual improvements included in paragraphs 65A(b) – (d) of the Consultation Document and the criteria for developing interpretations included in paragraph 24(d) – (f) of the *IFRIC Due Process Handbook* (these criteria is shown in the second part of **Appendix B** of this Paper). These respondents think that the similarity between the two criteria could create a potential conflict on deciding the appropriate course of action when analysing an issue in IFRSs that requires clarification.

##### ***Comparison between the qualifying criteria for annual improvements and for an interpretation***

51. The staff compared the criteria in paragraph 65A (a) – (d) included in the Consultation Document against the criteria in paragraph 24 (a) – (f) of the *IFRIC Due Process*

*Handbook*. The criteria among them are alike because the source and the nature of the issues addressed under the annual improvements process and the interpretation process are similar for both.

52. The table below shows this comparison; differences among the two criteria have been highlighted.

<b>IFRIC Due Process Handbook</b>	<b>Consultation Document</b>
Some of the criteria below can be met.	All of the criteria below must be met.
Par 24(a) –The issue is widespread and has practical relevance	Introduction to Consultation Document – Amendments are non-urgent but necessary
Par 24(b) – <ul style="list-style-type: none"> <li>• IFRIC will add an item to the agenda if IFRSs are not clear</li> <li>• Indication that there are significantly divergent interpretations of an issue</li> </ul>	Par 65A(i) – Clarify IFRSs <ul style="list-style-type: none"> <li>• Clarify unclear wording in existing IFRSs</li> <li>• provide guidance</li> </ul>
Par 24 (c) – eliminates diverse reporting methods.	Par 65A (ii) – correct IFRSs <ul style="list-style-type: none"> <li>• resolve conflict within existing requirements.</li> <li>• address an oversight or relatively minor unintended consequence of existing requirements.</li> </ul>
Par 24(d) – Issue can be solved within the confines of existing IFRSs and the <i>Framework</i> and the interpretation process.	Par 65A(i) and (ii) –A clarifying or correcting amendment does not propose a new principle or a change to an existing principle but may create an exception from an existing principle.
Par 24(d) – The issue should be sufficiently narrow in scope to be capable of interpretation, but not so narrow that it is not cost-effective.	Par 65(b) – the proposed amendment has a narrow and well-defined purpose.
Par 24(e) – Probable that IFRIC will reach consensus on a timely basis.	Par 65A(c) –Probable that IASB will reach consensus on a timely basis. Inability to do this may indicate that the issue is more fundamental.
Par 24(f) –If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner. IFRIC will not add an item to its agenda if the IASB project is expected to resolve the issue in a shorter period than the IFRIC.	Par 24(d) – if the proposed amendment would amend IFRSs that are subject of a current or planned IASB project, there must be a pressing need to make the amendment sooner than the project would.

***Differences between the qualifying criteria***

53. The staff has identified the following **differences** when comparing both criteria.

*The annual improvements criteria appears to be more rigid*

54. The qualifying criteria for an annual improvement appears to be more rigid based on the fact that an issue needs to meet all the criteria in paragraph 65A(a)<sup>3</sup> –(d); whereas to qualify for an interpretation, an issue does not need to satisfy all the criteria set in paragraph 24(a) – (f). Some respondents (CL 6, CL 27, CL 34) seem to be in agreement with this, because they think that the qualifying criteria for annual improvements should be strict enough to limit the number of amendments, otherwise, as one respondent observes (CL 34), the extensive use of annual improvements might raise questions about the stability and quality of the original underlying standards.

*Issue has to be widespread and have practical relevance for the interpretation process*

55. An issue has to be widespread and have practical relevance to qualify for inclusion within the interpretations agenda; however, the annual improvements process is silent in this respect.
56. The staff thinks that the characteristics of an issue being ‘widespread’ and having ‘practical relevance’ could also be used as assessment criteria for the inclusion of an issue as part of the annual improvements process.

*The annual improvements process produces relatively minor amendments in comparison with the interpretations process*

57. The criteria might also indicate that the annual improvements process and the interpretation process result in different types of changes to IFRSs. The staff thinks that an annual improvement might produce a relatively minor change in existing IFRSs (eg a change caused by an oversight). Whereas generating interpretive guidance could be considered a more fundamental and pervasive change intended to solve complex and conflicting interpretations among Standards.

*Amendments clarify, correct or both; interpretations only clarify*

58. An amendment derived from an annual improvement process would clarify or correct IFRSs or both. An interpretation might also clarify, but there is no indication within the criteria that an interpretation might also ‘correct’ IFRSs.
59. In the staff’s view, the objective of the interpretive process to eliminate significant divergent interpretations on an issue could be equivalent to resolving a conflict within

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<sup>3</sup> Even though paragraphs 65A(i) and (ii) note that an annual improvement could be either clarifying or correcting or both.

existing requirements as it occurs within the annual improvements process. Therefore, the staff thinks that the “correcting” and “clarifying” characteristics are also implicit within the interpretive process.

*Amendments might create exceptions to principles, while it appears that interpretations might not*

60. The draft criteria exposed for annual improvements proposed that an amendment derived from the annual improvements process might create an exception to the existing principle when correcting IFRSs. However, the qualifying criteria for the interpretive process do not seem to embrace the same possibility.
61. In line with the staff’s conclusion in **Issue 1** of this Agenda Paper, the staff think that as a general principle, neither annual improvement amendments nor interpretations can introduce new exceptions to the existing principles, and only other IASB projects should introduce exceptions.

***Similarities between the qualifying criteria***

62. Having analysed some of the apparent differences between the qualifying criteria for the annual improvements process and the development of interpretive guidance the staff would like to address some of their **similarities**. In the staff’s view both processes:
  - a) address newly identified financial reporting issues that are not specifically addressed in IFRSs
  - b) clarify issues where unsatisfactory or conflicting interpretations arise with a view to reaching a consensus on the appropriate treatment with respect to existing guidance
  - c) provide guidance where there is concern or conflict in the absence of guidance
  - d) maintain consistency with the principles of existing IFRSs
  - e) provide a consensus on an issue on a timely basis; and
  - f) provide a mechanism for developing guidance or amendments sooner than a current or planned IASB project would.
63. Another similarity to highlight between the two processes is that both are led by the same body. This is, the IFRS Interpretations Committee takes a leading role in:

- providing interpretive guidance in the absence of specific guidance in IFRSs or reviewing issues where unsatisfactory or conflicting interpretations have developed
- assisting the IASB by reviewing and recommending potential amendments to IFRSs as part of the Annual Improvements process.

***Proposed additional criteria***

64. The staff thinks that annual improvements and interpretations both simplify standards by clarifying existing principles. However the degree of complexity of a clarifying change could be a parameter for distinguishing changes produced by an annual improvement or by an interpretation, as shown below:

- (a) an annual improvement would be a relatively straightforward amendment of a minor part of an existing standard and a more efficient way of addressing an amendment; whereas,
- (b) an interpretation provides guidance for an existing IFRS, could provide guidance for an issue that is not covered in an IFRS, and might include amendments to a particular IFRS. The following characteristics are common to interpretations. They:
  - (i) have a narrow scope
  - (ii) include an extended analysis of the circumstances that gave rise to the request
  - (iii) contain a reference to the IFRS (or IFRSs) that are being interpreted
  - (iv) involve the clarification of the principles in the relevant IFRSs, and a description of the manner in which those principles should be applied under specific circumstances
  - (v) may include related consequential amendments to other IFRSs

65. The Committee members supported the staff’s initiative to develop further criteria to establish a clear distinction between annual improvements and interpretations. However, they thought that this distinction should be developed further. For example, they questioned whether:

- (a) an annual improvement is a ‘relatively straightforward amendment’
- (b) interpretations “amend” a particular IFRS or whether they only ‘interpret’

- (c) interpretations are an extended analysis of an issue
  - (d) interpretations are for clarification purposes
66. The staff, therefore suggests that this distinction between annual improvements and interpretations should be clarified within the proposed criteria.
67. The staff agrees that it could undertake further work on the distinction between annual improvements and interpretations if the Trustees confirm that this should be done. The staff welcomes the Trustee's input on how to best approach and portray this distinction.
68. However, based on the recommendations received from the Committee members and the Board, the staff recommends that the Trustees defer concluding this matter until the results of the Interpretation Committee effectiveness review, which is currently in progress, have been considered.

#### **Other concerns addressed by respondents**

69. The staff identified other concerns from respondents that are related to the work of the Committee but that do not were specifically addressed as part of the proposed qualifying criteria or that do not have a direct impact on these criteria. Therefore, the staff is planning to communicate these comments to the Foundations' Consultation strategy review team overlooking this process. The staff has summarised these comments below for the Trustees for information purposes.
- (a) One respondent (CL 34) recommends that the agenda decision clearly defines what shortcomings the project is intended to solve. If, in the course of developing an amendment, the Board sees benefits in enlarging the scope of its project, the enlargement decision should be subject to a separate agenda decision process.
  - (b) One respondent (CL 12) thinks that the formalisation effort should be extended to other areas, such as the process for adding issues to the IASB agenda.
  - (c) Two respondents suggest that the IFRS Interpretations Committee's remit should be broadened to make the work of the Committee more efficient. For example:

- (i) one respondent (CL 18) suggests that the Interpretations Committee should be able to issue interpretations (rather than agenda decisions) within a limited time frame
- (ii) another respondent (CL 23) makes a comparison with the work of the US Emerging Issues Task Force (EITF) and suggests that the Interpretations Committee could:
  - draft amendments to IFRSs, including those required to clarify an IFRS or resolve conflicts within IFRSs
  - identify, address, resolve and make necessary corrections to IFRSs in a timely manner
  - provide Implementation Guidance, including guidance on financial reporting issues not addressed specifically elsewhere in IFRSs; the latter could be interpreted as one of its mandates according to paragraph 43(a) of the Constitution. These activities could be reviewed and approved by the Board.