
Project	The annual improvement process –Proposals to amend the <i>Due Process Handbook</i> for the IASB
Topic	Summary of recommendations from the IFRS Interpretations Committee members

Objective

1. In **Agenda Paper 11**, ‘Comment letter analysis of the proposed qualifying criteria’ the staff summarised the comments received from constituents on the proposed amendments to the IASB Due Process Handbook. At the January 6, 2010 meeting, the staff discussed this summary with members of the IFRS Interpretations Committee. In this **Agenda Paper 11A** the staff summarises the Committee’s views and recommendations on the respondents’ comments.

Summary of the Committee’s recommendations

2. Derived from its analysis and discussion of **Issues 1–3** in **Agenda paper 11**, the Committee agreed with the following staff’s recommendations as indicated below.
 - (a) removing the last phrase in paragraph 65A(a)(ii) that a correcting amendment ‘may create an exception from an existing principle’ (**Issue 1**)
 - (b) amendments derived from the annual improvements process are considered mainly minor amendments, therefore, the references to ‘resolving a conflict’ or ‘addressing an oversight’ in paragraph 65A(ii) do not need to be clarified (**Issue 3.1**)

This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee.

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

Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*.

Interpretations are published only after the IFRS Interpretations Committee 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*.

IASB Staff paper

- (c) the Committee members are able to assess whether they will reach a conclusion on a certain issue on a timely basis; therefore, no amendment is proposed to paragraph 65A(c) **(Issue 3.4)**
3. The Committee suggested further modifications to the following aspects of the proposed qualifying criteria for annual improvements:
- a) 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 **(Issue 2)**
 - b) further refine the wording in paragraph 65A(b) **(Issue 3.3)**
 - c) communicate better the link between the annual improvements process and other stages of the IASB standard-setting process
 - d) provide a clearer distinction between an amendment derived from the annual improvements process and an interpretation

Issue 1: Exception from an existing principle (paragraph 65A(a)(ii))

4. The Committee members agreed with the staff’s analysis and recommendations in Issue 1 of Agenda Paper 11, noting 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.
5. To avoid confusion that a correction amendment might create new exceptions to existing principles, the Committee agreed with the staff’s recommendation to delete 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 the amendment sooner (paragraph 65A(d))

6. 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

IASB Staff paper

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.

7. However, the Committee did not agree with the staff’s recommendation of replacing paragraph 65A(d) with the following paragraph:

(d) The IASB will consider whether the proposed improvement to IFRSs is necessary and whether annual improvements is the appropriate process through which to make the change, or whether it would be quicker or more efficient to include the proposed amendment within another IASB project.

8. Instead, the Committee recommended that respondents’ concerns would be best addressed if the word “pressing” is simply eliminated from paragraph 65A(d), as follows:

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

9. The Committee did not agree with the staff’s proposed revised wording for paragraph 65A(b), as follows:

~~‘(b) The proposed amendment has a issue should be sufficiently narrow in scope and well defined to be capable of amendment and well-defined purpose, ie the consequences of the proposed change have been considered sufficiently and identified’.~~

10. Instead, the Committee recommended to refine the language used in 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’.~~

IASB Staff paper

Issues 3.2 and 3.4 – Clarify the link between the annual improvements process and other stages of the IASB's due process

11. As explained in paragraphs 41–44 and 48–50 of Agenda Paper 11, one respondent raised a concern that paragraph 65B does not adequately refer that the annual improvements process is linked further to other stages in the IASB's due process, besides the planning stage (Stage 2). In addition, another respondent claimed that the IASB will not be able to determine whether it will reach a conclusion on a particular issue at the planning stage, as stated in paragraph 65A(c) of the proposed criteria.
12. The Committee members do not propose any further amendments to paragraphs 65B and 65A(c) as suggested by some respondents because they believe that these paragraphs are accurate and clear. However, they suggest 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.
13. The staff suggests the following clarification in proposed paragraph 23A 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. 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.
14. **Appendix A'** of this paper shows the staff's proposed criteria for annual improvements along with the Committee's recommendations (highlighted therein).

IASB Staff paper

Issue 4 – Distinction between annual improvements and interpretations

Proposed additional criteria (Paragraph 61)

15. The Committee supported the staff's initiative to develop further criteria to establish a clear distinction between annual improvements and the interpretations. However, even though some members agreed in principle with the proposal in paragraph 61 of Agenda Paper 11, they think that this distinction should be developed further.
16. For example, in paragraph 61(a) they questioned the meaning of an annual improvement being a 'relatively straightforward amendment'. They also questioned whether interpretations "amend" a particular IFRS, as stated in the first part of paragraph 61(b) or whether they only 'interpret'. In addition:
 - (a) in 61(b)(ii) some members are not sure that interpretations are an extended analysis of an issue
 - (b) in 61(b)(iv) some members claim that a clarification characteristic is not exclusive of an interpretation

Single vs separate criteria for annual improvements and interpretations

17. In paragraph 69 of Agenda Paper 11 the staff identified two alternatives to address the need to provide a clarification among the two processes. Both alternatives would include a further clarification of the distinction between an AIP amendment and an interpretation, as explained in paragraph 61 of this paper.
 - (a) Under Alternative A, the distinction between an annual improvement and an interpretation will stay in the IASB's Due Process Handbook. View A is illustrated in Appendix B of Agenda paper 11.
 - (b) Under Alternative B, the staff suggests to have a single set of qualifying criteria that will be included within the IFRS Interpretations Committee Handbook; the IASB's Due Process Handbook will only include a reference to these criteria. Alternative B is illustrated in Appendix C of Agenda paper 11 and this is the Alternative that the staff is recommending.

IASB Staff paper

18. A majority of the Committee members supported having a single set of criteria (Alternative B), because this will make the Committee’s work more efficient. However they directed the staff to do some more work on the distinction between annual improvements and interpretations because they felt that:
- (a) the combined criteria looks ‘too forced’ to accommodate for amendments and interpretations; and
 - (b) some criteria should not apply to both. For example, the fact that an issue needs to be widespread and have particular relevance, as proposed in paragraph a) of the *IFRS Interpretations Committee Due Process Handbook*, should apply to interpretations only.
19. Some Committee members believe the criteria for annual improvements and interpretations should be kept separate from each other and maintained within their respective due process handbooks.
20. The staff will undertake further work on the distinction between annual improvements and interpretations if Board members confirm that this should be done and based on the input that the staff receives from Board members on how to best approach and portray this distinction. The Committee members suggest the Board to recommend that the Trustees defer concluding this matter until the results of the Interpretation Committee effectiveness review, which is currently in progress, have been considered.

Questions for the Board –

Question 1 – Do board members wish to express any views on the Committee’s recommendations addressed in this paper?

IASB Staff paper

Appendix A' – Proposed amendments to the proposed qualifying criteria for an annual improvement to be included in the *IASB Due Process Handbook*

Note: These criteria reflects the changes proposed by the staff in Agenda Paper 11 and the recommendations from the IFRS Interpretations Committee, which have been highlighted for ease of reference. Paragraphs 65A(b) and (d) that include recommendations from the Committee have been marked from their original version included in the IASB's Due Process Handbook.

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.~~

27B 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. Such an amendment 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, 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

IASB Staff paper

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.

IASB Staff paper

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.