

Due Process Oversight Committee

IFRS Foundation Trustees

13 October 2011

Agenda paper 3D

Memorandum

To: Trustees / Trustees' Due Process Oversight Committee

From: Tom Seidenstein
IFRS Foundation Chief Operating Officer
Michael Stewart
IASB Director of Implementation Activities

Date: 25 September 2011

Re: Trustees' Review of Efficiency and Effectiveness of the IFRS Interpretations Committee – update and feedback

Introduction and background

1. The Trustees commenced a review (the review) of the efficiency and effectiveness of the IFRS Interpretations Committee (the Interpretations Committee) in October 2010 with the release of a public questionnaire. This questionnaire was issued as a means of evaluating the efficiency and effectiveness of the Interpretations Committee in achieving its objectives and to seek suggestions for improving its operations. This review coincides with the on-going Trustees' Strategy Review, which addresses the need for consistent application of IFRSs. A similar questionnaire was also used to seek feedback from members of the Interpretations Committee (and official observers) as part of the review.
2. The trustees have previously been provided with summaries of the feedback received from the two questionnaires, which were prepared by staff of the IFRS Foundation, and not by staff involved in the work of the Interpretations Committee, to ensure appropriate independence and to maintain the anonymity

of the respondents to the questionnaires. This paper provides a brief description of the main findings from the questionnaires.

Main findings

3. The issues raised by the review are included, along with proposed responses in the appendix to this paper. The issues raised in the feedback received on the consultation can be analysed into two broad categories; those of an operating nature and those of a strategic nature.
4. In summary, the main issues raised of a strategic nature are:
 - (a) Should the objectives and scope of the Interpretations Committee be broadened?
 - (b) Should there be greater geographical representation among members of the Committee, perhaps modelled on that of the IASB?
 - (c) The agenda criteria are vague, require clarification and are not always applied in a consistent manner
 - (d) Agenda decisions, which are the explanations given by the Interpretations Committee for not adding an item to its agenda, are often relied on as 'de facto guidance' or 'quasi-interpretations' in the absence of interpretative guidance being provided, however, the 'due process' applied to the agenda decisions is considerably lighter than for an IFRIC Interpretation or an IFRS.
5. In summary, the main issues raised of an operational nature are:
 - (a) Concern that more time is needed for quality discussion during meetings
 - (b) More transparency needed on the research undertaken to establish the extent of diversity in practice, which is one of the key criteria assessed before adding an issue to the Interpretations Committee's agenda.

- (c) Concern that differences between the staff views presented in the agenda papers and those of the Interpretations Committee might lead to more diversity in practice.

Response to the findings

6. The summaries of the responses from the questionnaires were presented to the Interpretations Committee at its meetings in May and July by the IFRS Foundation staff and included a discussion with one of the Foundation Trustees.
7. The strategic issues raised through the review have been discussed by the Interpretations Committee and the IASB, both jointly and separately. The Interpretations Committee and the IASB have common views on the role that the Interpretations Committee should play; both bodies see the Interpretations Committee as working in partnership with the IASB to give guidance that responds to the implementation needs of those applying IFRSs. Both bodies see the importance of achieving balance between the principles-based approach of IFRSs and providing guidance with sufficient detail to ensure it is useful and practical.
8. The Interpretations Committee and the IASB are continuing discussions on these matters. These discussions are under the direction of a sub-committee of the Board, which includes the vice chair of the IASB.
9. The discussions include a focus on how the work of the Interpretations Committee can be more helpful and how the scope of its work and that of the Board should interface. These discussions are on-going and we will report back to the Trustees on the outcome at the January 2012 Trustees meeting.
10. The Interpretations Committee has discussed the operational issues raised through the review and developed draft responses to the trustees on the points raised. These draft responses are included in the appendix.

Discussion with IFRS Advisory Council

11. The findings of the review and the proposed responses set out in the appendix to this paper will be discussed with the IFRS Advisory Council at its meeting

on 10-11 October 2011. The results of that discussion will be reported to the Trustees.

Next steps

12. We will report to the Trustees in January 2012 the outcome of the discussions between the Interpretations Committee and the IASB, along with proposed amendments, as appropriate, to the Interpretations Committee Due Process. We would expect that any proposed changes to the Due Process would be exposed for public comment before being made.

Question for the Trustees / Due Process Oversight Committee

13. Do the Trustees / the Trustees' Due Process Oversight Committee have any questions on this status report or on the proposed next steps?

Appendix

Proposed responses from the Interpretations Committee

The following table includes the proposed responses from the Interpretations Committee to the feedback received via the Trustees' questionnaire on the efficiency and effectiveness of the Interpretations Committee. These proposed responses do not include actions to address comments received relating to the scope of the Interpretations Committee's work, the form that the outputs from that work should take and how it should interact with the IASB. These aspects of the feedback are the subject of on-going discussions between the Interpretations Committee and the IASB. The Interpretations Committee has considered the other feedback received and its proposed responses are included below.

Area of questionnaire	Issues raised	Proposed response from the Committee
<p>A. Objectives and scope of the activities of the Interpretations Committee <i>[to interpret the application of IFRSs and provide timely guidance on financial reporting issues not specifically addressed in IFRSs and to undertake other tasks (like AIP) at the request of the IASB]</i></p>	<ul style="list-style-type: none"> • It was questioned whether or not the Committee should focus only on developing interpretations and Annual Improvements, or whether its scope should widen to include more extensive improvements than would qualify for Annual Improvements. Respondents noted that this might be necessary in response to the increase in the number of jurisdictions applying IFRSs. • Considering the expertise and practical experience of the members of the Committee, the Committee is possibly underutilised in assessing practice issues and proposing solutions 	<ul style="list-style-type: none"> • The Interpretations Committee is in the process of discussing with the IASB the role and scope of its work, the form that the outputs from that work should take and how it should interact with the IASB.
<p>B. Membership of the Interpretations Committee <i>[number of members, the quality of their expertise, and geographical representation]</i></p>	<p>Points raised:</p> <ul style="list-style-type: none"> • The Committee lacks preparers with specialist industry knowledge, e.g. financial services and insurance 	<ul style="list-style-type: none"> • The Interpretations Committee values and appreciates the diversity within the Committee, however it considers the choice of members to be a matter for the

	<ul style="list-style-type: none"> • Lacks user and preparer representatives • Geographical representation is unbalanced • Jurisdictions where application of IFRS is not mandatory are over-represented 	Trustees.
<p>C. Operating procedures <i>[efficiency and effectiveness of meetings – length, frequency, location, agenda materials, member participation]</i></p>	<p><u>Meetings:</u></p> <ul style="list-style-type: none"> • More time needed for quality discussion during meetings. Sometimes the time spent was too short to allow for quality discussions of all the issues • Any changes to the agenda should be communicated in good time to all registered observers <p><u>Agenda papers:</u></p> <ul style="list-style-type: none"> • Need to provide more evidence of research done to determine the extent of diversity in practice • It is confusing when the staff view and the agenda decision are different, and may 	<p><u>Meetings:</u></p> <ul style="list-style-type: none"> • An appropriate balance needs to be struck between making progress through the agenda and ensuring that all relevant points are discussed and views expressed. The Committee members and the Chair are all committed to ensuring that this balance is struck appropriately. • The policy is that all changes to the agenda in advance of the meeting are posted to the website and emailed to those registered as observers. The Committee meetings are typically two-day meetings and sometimes changes are made at the end of the first day, that affect the meeting agenda for the second day. We will check to ensure that these changes are also posted to the website and emailed to registered observers. <p><u>Agenda papers:</u></p> <ul style="list-style-type: none"> • The staff has started, and will continue, to provide more explanation about the outreach undertaken. This will include the questions asked, the types of stakeholders approached, and a summary of the

	<p>lead to more diversity in practice</p> <ul style="list-style-type: none"> • Papers can be too long/complex and suffer from ‘scope creep’ into areas beyond the request that was received • The quality of the agenda papers will impact the effectiveness of the Committee’s discussions • More time needed before the meetings to prepare, especially for complex issues – papers sometimes posted late <p><u>General:</u></p> <ul style="list-style-type: none"> • Greater transparency needed around the prioritisation process in handling and discussing requests that are brought to the meetings • Resolution of issues that have been referred to the Board can be significantly 	<p>feedback received.</p> <ul style="list-style-type: none"> • The Interpretations Committee is in the process of discussing with the IASB the role and scope of its work, the form that the outputs from that work should take and how it should interact with the IASB. The subject of the differences between the staff view and the Committee conclusion when an agenda decision is published will be part of this discussion with the IASB regarding the form and content of agenda decisions. • Sometime a broader consideration of an issue than that included in a submission is needed to properly identify the underlying cause of an issue. The staff will make clear where and why they have taken a broader consideration, so that the Committee can direct the staff to adjust the scope of the work where appropriate. • The staff will continue to strive to develop clear agenda papers with reasoned arguments for all issues analysed • The staff are mindful of the need to post papers on a timely basis and will try to avoid posting papers less than 10 days before the meeting. <p><u>General:</u></p> <ul style="list-style-type: none"> • Since [2005] the Committee abolished holding a separate agenda committee meeting in private and now considers all submissions in its public meetings. Since the start of 2011, the staff have published all submissions that they have completed
--	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

	<p>delayed because they relate to projects that have been significantly delayed or removed from the agenda</p>	<p>preliminary research for, but for which agenda papers will be presented at a future meeting.</p> <ul style="list-style-type: none"> All matters referred to the IASB are presented to it in the IASB's public meetings. The Board's response to those referrals will be reported back to the Committee. When there has been a delay to the expected timetable for a particular project in which the Board has said will consider the referred item, the Committee will consider whether there is a need for it to take more immediate action.
<p>D. Agenda criteria</p>	<p>Agenda criteria generally are not always consistently applied and are vague, requiring clarification. Current agenda criteria have been reproduced below, with specific comments noted:</p> <p>(a) The issue is widespread and has practical relevance</p> <ul style="list-style-type: none"> Not enough information around what research was done on diversity in practice <p>(b) The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The Committee will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice</p> <ul style="list-style-type: none"> As above <p>(c) Financial reporting would be improved through elimination of the diverse reporting methods</p>	<ul style="list-style-type: none"> The Interpretations Committee is in the process of discussing with the IASB the role and scope of its work, the form that the outputs from that work should take and how it should interact with the IASB. The discussions will include consideration of the agenda criteria with a view to improving the criteria and reflecting any changes that may be appropriate to the Interpretations Committee's objective and scope of activities.

	<p>(d) The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process</p> <p>(e) It is probable that the Committee will be able to reach a consensus on the issue on a timely basis</p> <ul style="list-style-type: none">• This could lead to the Committee not addressing an issue because it is complex and would take time to resolve. The Committee concedes too quickly at times that the issue might be too difficult to solve• Uncertainty about the meaning of ‘consensus’ – unanimous decision or a working majority to reach consensus on a timely basis? <p>(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 the IASB’s activities. The Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Committee requires to complete its due process</p> <ul style="list-style-type: none">• Some issues that have been referred to the Board end up not being resolved in a ‘shorter period than the Committee requires’ because the projects they relate to have been significantly delayed or removed from the agenda	
--	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--

<p>E. Output from the Interpretations Committee <i>[Interpretations, proposals for inclusion in Annual Improvements and agenda decisions]</i></p>	<p>Generally, the distinction between the three categories can be unclear</p> <p><u>Interpretations:</u></p> <ul style="list-style-type: none"> • A low number of interpretations are issued in comparison with the number of agenda rejections – this issue is expected to become more important as the number of jurisdictions applying IFRSs increases • Identification of issues for interpretation needs to be clarified – some deal with widespread issues and some deal with very narrow issues • Interpretations should give guidance but not be rules-based – the level of detail in this regard varies • Unclear or complicated language is used in interpretations – difficult to understand and translate • Interpretations should not be based on tentative decisions of the IASB, nor should they be developed where there is no current IFRS • The normal effective date of an Interpretation is 3 months after issue by the IASB, which is shorter than for IFRSs. This can be problematic in those jurisdictions where the Interpretation must be endorsed before it can be adopted. <p><u>Annual Improvements:</u> considered to be one of the Committee’s activities that works best</p> <p><u>Agenda decisions:</u></p>	<p><u>Interpretations:</u></p> <ul style="list-style-type: none"> • The Interpretations Committee is in the process of discussing with the IASB the role and scope of its work, the form that the outputs from that work should take and how it should interact with the IASB. This will include discussion of the level (number) of interpretations, the nature of guidance to be issued, and whether the Interpretations Committee should extend its activities to include application guidance or implementation guidance. <p><u>Annual Improvements:</u> The Committee will continue to develop annual improvements on behalf of the Board</p> <p><u>Agenda decisions:</u></p>
---------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

	<ul style="list-style-type: none"> • Are relied upon as de facto guidance or ‘quasi-interpretations’ • Comment period of 30 days is not sufficient time for constituents to analyse the issues in order to respond effectively, especially for more complex issues 	<ul style="list-style-type: none"> • The Interpretations Committee is in the process of discussing with the IASB the role and scope of its work, the form that the outputs from that work should take and how it should interact with the IASB. This will include discussion of the content of agenda decisions. • The Committee proposes to keep with the current comment period of 30 days for tentative agenda decisions, unless the status of agenda decisions is changed following the discussions with the IASB in order that the comments are received in time to be brought to the next Interpretations Committee meeting.
<p>F. Communications</p>	<ul style="list-style-type: none"> • Uncertainty about whether a request has been received by the staff or when it will be presented at a Committee meeting. Suggestion that the likely timing of the issue being presented to the Committee be given. • The Update is too high level and provides no indication of the debate that took place at the meeting. Enhanced minutes should be produced • • Drafting changes are sometimes not transparent 	<ul style="list-style-type: none"> • Receipt of submissions are acknowledged and since the start of 2011 the staff have published all submissions that they have completed preliminary research for, but for which agenda papers will be presented at a future meeting. These submissions have generally been presented discussed at the next Committee meeting • The Interpretations Committee is in the process of discussing with the IASB the role and scope of its work, the form that the outputs from that work should take and how it should interact with the IASB. The content of agenda decisions, including consideration of a ‘basis for conclusions’ for agenda decisions, will be discussed with the IASB. • • All technical discussions are held in public, and some drafting comments are

		<p>given by Committee members in the public meeting when those comments may be more significant than just drafting. It is appropriate that drafting changes to agenda decisions are made offline. With respect to the agenda decisions, since 2010, the draft wording of the tentative agenda decisions has been included in the public observer notes to further increase transparency.</p>
<p>G. Leadership</p>	<ul style="list-style-type: none"> • Important that all technical opinions can be expressed and considered during the meeting • Observers rely on the Chair to structure the debate and summarise in a neutral way because of the different points of view that are put across in the meeting 	<ul style="list-style-type: none"> • An appropriate balance needs to be struck between making progress through the agenda and ensuring that all relevant points are discussed and views expressed. The Committee members and the Chair are all committed to ensuring that this balance is struck appropriately.
<p>H. Interaction with the IASB</p>	<ul style="list-style-type: none"> • The recent heavy workload of the IASB has hindered its ability to efficiently deliberate issues that the Committee has referred to it (same point as was raised in C and D) 	<ul style="list-style-type: none"> • The IASB still has a commitment to complete the four major projects on a timely basis, but with the passing of the June 2011 milestone, the Interpretations Committee expects that there will now be more opportunity for the IASB to consider and discuss the matters referred to it by the Committee.