

AGENDA PAPER

IFRS Foundation Trustees' meeting—Due Process Oversight Committee

London

12-13 April 2012

Agenda ref

3E

To: Trustees / Trustees' Due Process Oversight Committee

From: Michael Stewart
IASB Director of Implementation Activities

Date: 30 March 2012

Re: Trustees' Review of Efficiency and Effectiveness of the IFRS Interpretations Committee – Draft final report

Introduction and background

1. The Trustees commenced a review of the efficiency and effectiveness of the IFRS 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.
2. The trustees have previously been provided with the interim reports of the progress of the review. The purpose of this memo is to present the Trustees with a draft final report, to conclude the review.

Developments since January 2012

3. At the January and March Interpretations Committee meetings and at the February and March IASB meetings, the following strategic matters were discussed:
 - (a) The objectives and scope of the Interpretations committee's work
(pages 7 to 9 of the draft report)
 - (i) The Interpretations Committee and the Board agreed that the Interpretations Committee should consider a

broader range of ‘tools’ for responding to the issues submitted to it

- (b) The Interpretations Committee’s agenda criteria (pages 9 to 11 of the draft report)
 - (i) The Interpretations Committee and the Board propose revised agenda criteria, to reflect the decision above concerning the use of a broader range of tools and also to respond to the feedback received about the agenda criteria. Note, that the proposed amendments to the agenda criteria will need to be exposed for public comment. We propose that these criteria be exposed as part of the broader revisions to the IASB’s and Interpretations Committee’s Due Processes.
- (c) The Interpretations Committee’s output, including rejection notices (pages 11 to 13 of the draft report)
 - (i) As well as agreeing the use of a broader range of tools, as noted above, the Board and the Interpretations Committee have agreed some changes and some clarifications to the form, content and exposure period for the agenda rejection notices.

The draft report

- 4. The accompanying draft report presents the feedback from the review and the IASB’s and Interpretations Committee’s responses and proposals to the findings of the review, in each of the areas investigated.

Membership of the Interpretations Committee

- 5. One of the areas on which feedback was sought was that of membership of the Interpretations Committee. Members of the Interpretations Committee are appointed by the Trustees, and so membership is a matter for the Trustees, rather than for the IASB or the Interpretations Committee. The draft report therefore provides a draft response from the Trustees to the feedback received on this topic, rather than a response from the IASB and the Interpretations Committee.

Communication

6. At previous meetings of the DPOC, concerns have been expressed about the visibility of the actions taken by the IASB and the Interpretations Committee. To address these concerns we have created a new page dedicated to the review. This page provides a summary of the review process and links to papers discussed by the DPOC, IASB and Interpretations Committee. The report, once finalised, will also be accessible from this page. Interested parties can access the new page from the DPOC landing page or the Interpretations Committee landing page.

Recommendation

7. The staff recommend that the DPOC approve and issue the report, subject to any changes the DPOC thinks are appropriate. We also recommend that a printed copy of the report be sent to the parties who responded to review.

April 2012

IFRS Foundation

Report on the Trustees' Review of
Efficiency and Effectiveness of the
IFRS Interpretations Committee



Report on Trustees' Review of
**Efficiency and Effectiveness of the
IFRS Interpretations Committee**

Draft

April 2012

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Draft

Introduction

The Trustees of the IFRS Foundation have undertaken a review of the efficiency and effectiveness of the IFRS Interpretations Committee (the Interpretations Committee). The Interpretations Committee is the interpretative body of the IASB. The mandate of the Interpretations Committee is to discuss, on a timely basis, widespread accounting issues that have arisen within the context of current IFRSs and to provide authoritative guidance on those issues. The review represents part of the Trustees' Strategy Review, which addresses the need for consistent application of IFRSs. An important part of the Interpretations Committee's work is responding to concerns over the consistent application of IFRSs.

This report sets out the findings of the review and describes the steps taken in response to those findings.

Draft

Trustees' conclusions on findings and responses

This report concludes the Trustees' review of the efficiency and effectiveness of the Interpretations Committee. We, the Trustees, undertook the review as part of our Strategy Review. The Strategy Review addresses the need for the consistent application of IFRSs. The Interpretations Committee plays an important role in that strategy.

This review of the Interpretations Committee has provided very useful feedback on how the Interpretations Committee is performing and, more importantly, highlighted areas for improvement.

The main recommendations arising from the review of the Interpretations Committee follow. We are pleased that, where possible, the IASB and the Interpretations Committee have already begun implementing these improvements. Those recommendations that require revisions to the IASB's and the Interpretations Committee's due process will be exposed for public comment in the next few months. Our intention is that the consultation on improvements to the due process should be concluded by the end of 2012, so that the new procedures can take effect from 2013.

We are grateful to those stakeholders who responded to our request for feedback on the Interpretations Committee and to the members of the Interpretations Committee, the IASB and the IASB staff for their constructive responses to the feedback received during the review.

We support the main recommendations arising from the review:

- A broader range of 'tools' should be deployed by the Interpretations Committee, enabling it to be more responsive to requests for assistance.
- A single set of agenda criteria should be applied when assessing whether the Interpretations Committee should address an issue, regardless of the form that the Interpretations Committee's response might take. The proposed revised criteria are presented in Appendix A.
- The agenda rejection notices, which are issued by the Interpretations Committee when it decides not to address an issue, should:
 - remain outside the body of IFRSs, and not form part of the requirements;
 - provide helpful guidance in those circumstances when the Interpretations Committee has reached a view on an issue. This guidance should be capable of being read without reference to staff papers and the original submission; and
 - be exposed for comment for 60 days.
- The Interpretations Committee should make greater use of outreach when assessing whether to add an issue to its agenda, and details of that outreach should be described to stakeholders to help them understand the basis for the Interpretations Committee's decisions.
- The IASB and the Interpretations Committee should work and communicate better together, especially in anticipation of an expected increased workload for the Interpretations Committee over the coming years.
- The Trustees will monitor the composition of the membership of the Interpretations Committee, and consider the balance of geographical and professional backgrounds when appointing new members.

Review procedures undertaken

The Trustees conducted the review by requesting comments from interested parties and from members of the Interpretations Committee through the use of a questionnaire. The review began in October 2010 and 34 responses were received by the end of the public comment period in January 2011. This was in addition to the responses received from the Interpretations Committee members themselves. The Trustees granted anonymity to respondents to encourage frank and honest feedback. Accordingly, the responses received were summarised by staff of the IFRS Foundation, who are independent of the IASB staff and of the members of the Interpretations Committee. This allowed the identity of respondents to be kept confidential.

The responses received to the questionnaire were presented by IFRS Foundation staff to the Interpretations Committee, who then discussed the responses with representatives of the Trustees and members of the IASB. The responses to the findings of the review have been developed by the Interpretations Committee and discussed and agreed with the IASB and the Trustees. The exception is the response to feedback received concerning the membership of the Interpretations Committee. Appointments to the Interpretations Committee is the responsibility of the Trustees. Accordingly, the response presented to comments received on the membership of the Interpretations Committee is that of the Trustees, rather than the IASB and the Interpretations Committee.

This report, together with the implementation of the actions identified, concludes the Trustees' review of the efficiency and effectiveness of the Interpretations Committee.

Review results and responses

The feedback received through this review on the efficiency and effectiveness of the Interpretations Committee has been classified as relating to either strategic matters or operational matters. In this report the Trustees analyse the main areas commented on, summarising the feedback received and describing the IASB's and Interpretations Committee's response.

Strategic matters

The comments received on strategic matters fell into five main areas;

- (a) the objectives and scope of the Interpretations Committee's work;
- (b) the appropriateness and application of the Interpretations Committee's agenda criteria;
- (c) the form that the Interpretations Committee's output should take, including the content of its agenda decisions (ie requests that the Interpretations Committee has rejected);
- (d) the interaction between the Interpretations Committee and the IASB; and
- (e) membership of the Interpretations Committee.

Each of these areas is considered below.

Objectives and scope of the Interpretations Committee's work

Feedback received

The objectives of the Interpretations Committee are to interpret the application of IFRSs, provide timely guidance on financial reporting issues that are not specifically addressed in the IFRSs and to undertake other tasks at the request of the IASB. The other tasks to date have largely been to recommend to the IASB items to include in the Annual Improvements process.

Most respondents commented that they believe that the objectives of the Interpretations Committee are appropriate. Furthermore, some respondents commended the Interpretations Committee for avoiding the proliferation of rules, and thereby upholding the IASB's objective of principle-based standards.

However, other respondents were concerned that the Interpretations Committee may not always be meeting those objectives fully because of the timeliness of the Interpretations Committee's process and the adequacy of the interpretative guidance provided. For instance, some respondents commented that stakeholders expect more interpretation and application material than the IASB and the Interpretations Committee currently provide.

Several respondents requested more clarity about the relative roles of the Interpretations Committee and the IASB. There was an acknowledgement that work is already underway to consider when an issue should be resolved via an Interpretation, the Annual Improvements process, a standalone amendment or by referring the issue to a broader IASB project.

Further comments received included a recommendation that the role of the Interpretations Committee should be extended to enhance its ability to address improvements to IFRSs in a timely manner.

Some other respondents suggested that the principle-based nature of IFRSs means that the need for the Interpretations Committee to interpret the application of IFRSs should be limited. They therefore questioned whether interpreting the application of IFRSs should remain a primary objective of the Interpretations Committee. They suggested that the Interpretations Committee's efforts might be better invested in:

- (a) reviewing proposed improvements to IFRSs;
- (b) making recommendations to the IASB as part of the Annual Improvement process;
- (c) contributing to the forthcoming post-implementation reviews; and
- (d) more generally, identifying implementation issues, assessing alternatives and developing solutions (especially at times when the IASB's agenda is full).

More generally, respondents suggested that, with the development of additional standards, and as the number of jurisdictions applying IFRSs increases, the role of, and the demands on, the Interpretations Committee would increase. Consequently, it was suggested that the Trustees, the IASB, and the Interpretations Committee should, at a minimum, re-examine the scope of the Interpretations Committee's work.

Response of the IASB and the Interpretations Committee

The IASB acknowledges the importance of having a responsive process for developing Interpretations, and that some changes are necessary to the way in which the current process operates.

The IASB and the Interpretations Committee share a common view 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 also see the importance of achieving a balance between the principle-based approach of IFRSs and providing guidance with sufficient detail to ensure that it is useful and practical.

The IASB supports the idea of the Interpretations Committee becoming more responsive to interpretation requests. To that end, the IASB supports the Interpretations Committee using the following range of tools to address the issues submitted to it:

- (a) enhancing mandatory requirements (new or revised requirements within IFRSs); and
- (b) provision of non-mandatory guidance.

The mandatory requirements could include:

- (a) IFRIC Interpretations; and
- (b) amendments to standards through:
 - (i) the Annual Improvements process; or
 - (ii) proposals to the IASB for targeted, narrow-scope amendments that are beyond the scope of the Annual Improvements process. These might include proposals for additional application guidance.

Non-mandatory solutions that the Interpretations Committee could use to address issues include:

- (a) proposals for additional illustrative examples;
- (b) explanations via rejection notices; and
- (c) referral to the IFRS Education Initiative, including proposals for inclusion in occasional staff articles.

All of these forms of output are part of the current framework of the literature and so changes to the IFRS Foundation Constitution or to the IASB's or the Interpretations Committee's *Due Process Handbook* are not required to put these into effect.

The change being made by the IASB and the Interpretations Committee is to take a wider perspective on how the implementation issues submitted can be tackled. The IASB has given the Interpretations Committee 'standing authority' to propose solutions for addressing each implementation issue in the most efficient and effective manner. The IASB will consider and discuss the Interpretations Committee's recommendations on each issue before deciding whether to approve it, in the same way as it currently discusses and considers the Interpretations Committee's proposals for annual improvements.

Appropriateness and application of the Interpretations Committee's agenda criteria

Feedback received

The Interpretations Committee uses six agenda criteria to assess issues and decide whether they should be addressed through the issuing of an Interpretation and, therefore, added to the Interpretations Committee's agenda.

Although some respondents called for enhancements to be made to individual agenda criteria, it was the consistent application of the criteria and the processes for assessing and documenting the criteria that many respondents thought needed improving.

There was a perception that the Interpretations Committee tends towards a conservative application of the agenda criteria, and while some maintained that this was a reflection of the organisation's principle-based orientation, others maintained that historically there was a degree of subjectivity in the decisions to accept or reject issues.

The Interpretations Committee was urged to:

- (a) Improve its research and assessment of the criteria that 'the issue is widespread' and 'there are significantly divergent interpretations'. Assessments should be documented in terms of how the assessment was performed (ie who was consulted) and the responses received. Several respondents suggested that further work should be undertaken with the International Forum of Accounting Standard-Setters (formerly the National Standard-Setters (NSS)) and the IFRS Advisory Council to explore the contribution that they could make in this area.
- (b) Clarify what constitutes 'widespread' and 'significantly divergent'.

Several respondents questioned the appropriateness of the criterion that the Interpretations Committee would address an issue only if "it is probable that the Committee will be able to reach a consensus on the issue on a timely basis". They suggested that this could lead to some issues not being dealt with because they are complex and would take time to resolve, while the issues themselves would remain and affect implementation of the relevant IFRS. Respondents recommended that the Interpretations Committee should endeavour to reach consensus but that where this proves difficult, suitable resolution mechanisms should be developed, for example, deferring decisions until consultations with an expert panel or other outreach has been performed, or referring the matter to the IASB.

Some respondents also suggested that there is uncertainty of the meaning of the term 'consensus' within the context of that criterion and questioned whether the intention of the criterion is to assess the likelihood that the whole Interpretations Committee, or only the requisite number of members for voting to issue an IFRIC Interpretation, would be able to reach a decision on a timely basis.

Respondents questioned whether the criterion that "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" is taken into full consideration when rejecting an issue. They noted that decisions made on the basis of this criterion have led to situations in which preparers and users faced long periods of uncertainty. The sentiment was that issuing guidance should be postponed only if it relates to an active project of the IASB, and its anticipated completion is in the near term. They suggested that the

likely effective date and availability of early application are factors that should be taken into account when assessing the time that an IASB project is expected to take to resolve an issue. It was suggested that the Interpretations Committee should monitor the IASB agenda and proactively pick up issues that had previously been rejected if there are delays in the relevant IASB project.

In addressing several sections of the questionnaire, some respondents said that it was unclear how the Interpretations Committee determines whether an issue should be resolved via an Interpretation, via the Annual Improvements process or if it should lead to a new or revised IFRS. Many appreciated that work was being done in this respect with the recent Annual Improvement process amendments to the *Due Process Handbook*, and welcomed the clarity this would bring.

Response of the IASB and the Interpretations Committee

The IASB and the Interpretations Committee propose revised agenda criteria, which are included in Appendix A and take account of:

- (a) the comments received about the agenda criteria; and
- (b) the proposal that the Interpretations Committee should deploy a wider range of solutions to the issues that it addresses.

This proposed single set of criteria would be used to assess all issues submitted to the Interpretations Committee and is intended to help determine when an issue should be addressed by the Interpretations Committee, as opposed to the Interpretations Committee concluding that no action should be taken or that the matter should be referred to the IASB for its attention. The proposed revised criteria will be exposed for public comment as part of the Trustees' consultation on a revised *Due Process Handbook*. The consultation on revisions to the *Due Process Handbook* is expected to begin in the second quarter of 2012.

In addition to the revisions to the agenda criteria, the Interpretations Committee has begun to change the way in which it applies the criteria, responding to the feedback received.

The outreach performed to assess how widespread an issue is and the extent of diversity in practice now includes outreach to national accounting standard-setters as a matter of routine. From 2012 this outreach will also include outreach to the International Organisation of Securities Commissions (IOSCO) and the European Securities and Markets Authority (ESMA), thus providing both a regulator's perspective and a transnational perspective. The details of the outreach undertaken, who responded (in broad terms) and information about the responses received is now reported in the agenda papers.

When assessing how widespread an issue is and the extent of diversity in practice, the application of judgement by the Interpretations Committee members remains an important part of the assessment. However, the increased use of outreach, and the inclusion of the results of that outreach in agenda papers, is expected to make the rationale for the judgements made by the Interpretations Committee more transparent.

On the question of whether an issue can be widespread if it affects only one country and/or one industry, the Interpretations Committee notes that it is rare that an issue is unique to one industry or country. However, in circumstances when outreach supports an assessment that the issue relates only to one country or industry, the Interpretations Committee will consider how addressing the issue more generally might assist entities in other industries or countries, now or in the future. For example, it would be appropriate for the Interpretations Committee to address the accounting for a type of tax rather than a single country-specific tax.

Finally, the Interpretations Committee recognises that although eliminating diversity is the objective, a significant reduction of diversity in practice is a worthwhile improvement to financial reporting. Pursuing a significant reduction of diversity in instances where eliminating the diversity altogether is not possible may lead to more issues being addressed by the Interpretations Committee.

A challenge was raised about the criterion that requires the Interpretations Committee to reach a consensus on whether to add an issue to its agenda in a timely basis. The issues raised here relate to:

- (a) How many Interpretations Committee members are required to support the addition of an issue to the Interpretations Committee's agenda?
- (b) Once an issue is added to the agenda, how should it be dealt with if the Interpretations Committee is unable to reach agreement on the resolution of the issue, and when should this assessment be made?

The Interpretations Committee proposes that the current requirements, as set out in the *Due Process Handbook*, should be retained but communicated better to stakeholders. The support of more than half of Interpretations Committee members is needed to add an issue to the agenda. Reassessment of the decision to add an issue to the Interpretations Committee agenda is required after three meetings, at which point consideration must be given to removing the issue from the agenda.

The final concern that respondents raised about the agenda criteria is the consideration of IASB projects and the decision not to address an issue because it relates to an active IASB project. The Interpretations Committee holds the view that if it develops a solution that is expected to be effective for a reasonable period of time before the corresponding IASB project, then the Interpretations Committee should proceed with addressing the issue. The Interpretations Committee will also periodically review any issue that it has referred to the IASB and, where appropriate, re-evaluate it, with a view to adding it to its agenda if the IASB project is no longer expected to resolve it in a sufficiently timely manner.

The Interpretations Committee's output, including rejection notices

Feedback received

Respondents suggested that the number of published Interpretations was low compared to the number of agenda items that were rejected. Some respondents saw this as a reflection of the principle-based approach to standard-setting and the determination of the Interpretations Committee not to create rule-based Interpretations. Other respondents, however, maintained that this reflects an expectation gap between the standard-setter and interested parties on the volume of guidance that should be included in IFRSs and Interpretations. They suggested that this has created a tension that is only likely to grow as more jurisdictions adopt IFRSs.

The following are the main concerns raised in relation to the Interpretations (or IFRICs):

- (a) Interpretations developed for the right issues—several respondents commented that they thought some Interpretations that have been issued were too narrow in scope or were too situation-specific (for example, IFRIC 15 *Agreements for the Construction of Real Estate*), while respondents thought other issues that were rejected could have benefited from some form of Interpretation.
- (b) The level of detail in Interpretations in giving general guidance but not being rule-based—some respondents thought that the right balance was not always achieved between being principle-based and yet still giving sufficient, clear guidance.
- (c) Clarity of Interpretations—at least one respondent thought that the language used in Interpretations can be difficult to decipher, and that this is compounded when translated.

- (d) Focus of Interpretations—respondents asked whether the Interpretations are focused only on current IFRS requirements, or whether they sometimes apply the IASB's proposals for future IFRSs before those proposals are finalised. One particular Interpretation (IFRIC 15) was criticised for being based on tentative decisions of the IASB, which are not authoritative literature.
- (e) The Interpretations attempt to fill a hole in current IFRSs—some respondents gave as an example the (then) draft interpretation *Stripping Costs in the Production Phase of a Surface Mine*.

In order to improve the quality of its Interpretations and to bring them into line with the IASB's due process for IFRSs, one respondent suggested that the Interpretations Committee might consider testing draft Interpretations with interested preparers, auditors and users before publication, and to conduct post-implementation reviews of Interpretations.

More than half of the respondents rated the Annual Improvements process as effective in meeting the needs of interested parties, and several listed the Interpretations Committee's involvement in the Annual Improvements process as one of the Interpretations Committee's activities that works best.

There were numerous comments on the content of agenda decisions (rejection notices). It was acknowledged that the Interpretations Committee had a difficult task in appropriately wording rejection notices. While explanations may contribute to transparency of rejection notices, it can lead to situations in which rejection notices (which are non-authoritative and not subject to full due process) are considered de facto guidance or 'quasi-Interpretations'.

Several respondents requested that the Interpretations Committee should use explicit and clear references to the relevant provisions in the IFRSs and Interpretations in its rejection notices; give better indications of acceptable/unacceptable treatments; state where it thinks that more than one answer is acceptable; and avoid references to future IASB projects that are delayed or whose eventual conclusion is still too uncertain.

Respondents also recommended that rejection notices should clearly indicate their non-authoritative status. It should also be clear that they are developed on the basis of deliberations at a particular point in time and, because they are not revisited, the reasoning in a particular rejection may have been superseded by subsequent developments.

Given the difficulties experienced with the wording of rejection notices, a small number of respondents suggested reconsidering the status of rejection notices and the approval processes that are applied to them. These respondents considered rejection notices as being similar to amendments to application guidance that are approved by the IASB.

One respondent asked that consideration should be given to providing a non-authoritative document to accompany the IFRIC *Update* newsletter but that would provide more detail on the views exposed by staff, the Interpretations Committee's discussions and their conclusions.

Many respondents commented on the due process and comment period set for rejection notices. The *Due Process Handbook* provides for a minimum period of not less than 30 days; however, it was noted that 30 days is often set as the comment period and that in many cases this does not provide sufficient time for respondents to analyse the issues. Extended comment periods should be considered for tentative rejection notices that are either more complex, less urgent or issued for comment during 'busy' times of the year.

Response of the IASB and the Interpretations Committee

The proposals set out above on the objective and scope of the Interpretations Committee's work addresses, in part, the concerns raised in this area; that is, that the IASB and the Interpretations Committee expect the Interpretations Committee to use a broad range of tools to address the concerns submitted to it. A consequence of using a broad range of tools is that the number of issues rejected by the Interpretations Committee is expected to decline.

Nevertheless, there will continue to be issues that the Interpretations Committee decides do not meet its agenda criteria. In those circumstances, the Interpretations Committee will issue a rejection notice. The IASB and the Interpretations Committee are agreed that:

- (a) There should be no change in the status of rejection notices. They do not have the authority of an IFRS and they will therefore not provide mandatory requirements but they should be seen as helpful, informative and persuasive.
- (b) In circumstances when the Interpretations Committee has reached a clear view on the issue, the rejection notice should state that view. This is consistent with the IASB's and the Interpretations Committee's desire to be helpful to those seeking assistance.
- (c) The rejection notices should contain sufficient explanation to enable a preparer, auditor or regulator to readily understand the issue and the view taken by the Interpretations Committee, without the need to refer back to the submission and the staff papers.
- (d) The IASB should not be asked to ratify the rejection notices. The IASB's attention is brought to the tentative rejection notices as part of the regular reports the Interpretations Committee makes to the IASB, thus providing opportunity for the IASB to raise any concerns over the proposed rejection notice. However, requesting formal IASB approval risks elevating the status of the rejection notices within the IFRS hierarchy, even if only by perception.
- (e) The tentative rejection notices should be open for comment for 60 days after publication, compared with the current 30 days. This will allow more time for interested parties to respond.

Interaction between the Interpretations Committee and the IASB*Feedback received*

There are perceptions that the Interpretations Committee and the IASB are not working in a co-ordinated way. Some respondents supported the Interpretations Committee doing work on behalf of the IASB, such as it did recently in relation to put options attached to non-controlling equity interests, and would like to see the Interpretations Committee doing more. This would help to overcome the perception that the Interpretations Committee is unable to help because the issues submitted do not fit neatly into an Interpretation or the Annual Improvements process. Similarly, some respondents commented that too much time was spent discussing what form the output of the Interpretations Committee's work would take (ie a rejection, an Interpretation or an amendment) instead of focusing on resolving the technical issue.

Response of the IASB and the Interpretations Committee

In response, the IASB has ensured that it has more IASB members present at meetings of the Interpretations Committee and has established a Board Advisor group. The appointment of Wayne Upton as Chairman of the Interpretations Committee was also designed to allow the Interpretations Committee to work more closely with the IASB than it has been over the last two years, when the Chair was a part-time appointment. Mr Upton is also responsible for international activities and is therefore well placed to identify issues as they emerge.

The IASB is also conscious of not creating artificial distinctions between Interpretations, the Annual Improvements process and stand-alone improvements. All Interpretations must be ratified by the IASB and any improvements must be approved by the IASB, even if some of the work in developing them is undertaken by the Interpretations Committee. The IASB is committed to improving its communication with the Interpretations Committee to ensure that any necessary improvements, whatever form they take, are developed efficiently.

Membership of the Interpretations Committee

Feedback received

Respondents broadly agreed that the size of the Interpretations Committee is appropriate and manageable, and that the Interpretations Committee members possessed considerable expertise and practical experience.

Some respondents thought that it was desirable to have members with expertise that is reflective of major stakeholder groups. As constituted during the consultation period, the Interpretations Committee had five members from audit firms (now four members) but, at the same time, appears to lack preparers with experience in industries such as financial services and insurance, as well as lacking users (such as financial analysts and fund managers) and academics.

Many respondents expressed a desire to see geographical diversity represented in the Interpretations Committee, so that a broad spectrum of views reflecting different business environments is taken into account. In particular, these respondents believe that the Interpretations Committee would benefit from greater emerging market perspectives, including from Latin America, Asia and the Middle East. One respondent suggested that the geographical representation could be modelled on that of the IASB.

There were several comments made expressing concern about the high number of members from jurisdictions not currently applying IFRSs. These respondents noted that the goal of the Interpretations Committee is to interpret current IFRSs and that, whilst useful insights into potential future problems can be presented by members representing future adopters, the Interpretations Committee should primarily be composed of IFRS experts who apply IFRSs on an ongoing basis.

Although geographical balance was seen as desirable, several respondents emphasised that, in their view, the overriding criteria in assessing the Interpretations Committee members is the quality of contribution they offer to the discussion, in terms of expertise and experience.

Response of the Trustees

The subject of the membership of the Interpretations Committee rests with the Trustees, rather than with the IASB or the Interpretations Committee itself.

The Trustees value and appreciate the diversity in experience brought to the Interpretations Committee by members from a variety of backgrounds and experience. The members are appointed for a period of three years, renewable once. The terms of the members are staggered to ensure that continuity is maintained when existing members retire. The Trustees will monitor the balance of geographical and

professional backgrounds when they appoint new members, seeking to ensure that a reasonable balance is maintained, without compromising the overriding priority that all members of the Interpretations Committee have significant experience in the day-to-day application of IFRSs.

Operational matters

The feedback on operational matters fell into three main areas:

- (a) general operating procedures, including:
 - (i) meetings;
 - (ii) agenda papers;
 - (iii) other general operating matters;
- (b) communications; and
- (c) leadership.

The feedback received on the general operating procedures related to the amount of time available for a thorough discussion of the issues during the Interpretations Committee meetings; the quality and clarity of agenda papers; the clarity and transparency of how issues are brought to the Interpretations Committee's meetings; and what happens when an issue is referred to the IASB, particularly in circumstances when the timetable for the IASB's project is delayed.

The feedback received relating to communications included concerns about the level of detail included in IFRIC *Update* and the drafting of rejection notices. The concerns about the leadership of the Interpretations Committee meetings provided feedback on the way in which the debates are structured and how the Chair summarises the Interpretations Committee's discussions.

Details of the issues raised by respondents to the questionnaire on these operational areas are included in Appendix B, along with the responses of the Interpretations Committee to those issues.

Appendix A—Proposed revised agenda criteria

Proposed agenda criteria—applicable to all issues submitted to the Interpretations Committee

The overarching objective of the IFRS Interpretations Committee is to assist the IASB in improving financial reporting. A key focus of the Interpretations Committee in its work is addressing diversity in practice in the application of IFRSs. In support of this objective and to provide focus to the Interpretations Committee's work the following criteria serve to help the Interpretations Committee select which of the issues submitted should be addressed:

(a) *Prevalence and significance*

- (i) the issue is widespread and has practical relevance; and
- (ii) the issue is material to the entities that it affects.

The Interpretations Committee will address issues that have widespread effect and have, or are expected to have, a material effect on those affected.

(b) *Diversity in practice*

- (i) The issue is causing diversity in practice in the application of IFRSs (either emerging or already existing in practice).

Financial reporting would be improved through elimination of diverse reporting methods. The Interpretations Committee will pursue opportunities to reduce diversity in practice if elimination of diversity is not possible.

(c) *Feasibility and efficiency*

- (i) The issue can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework*.

The issue should be sufficiently narrow in scope to be capable of being addressed in an efficient manner by the Interpretations Committee. However, it should not be so narrow that it is not cost-effective for the Interpretations Committee and its interested parties to undertake the due process associated with the changes to IFRSs that would be required.

(d) *Timeliness*

- (i) The solution developed by the Interpretations Committee will be effective for a reasonable period of time.

If the issue relates to a current or planned IASB project, the Interpretations Committee will assess its ability to develop guidance that will be effective sooner than the corresponding IASB project, taking into account the necessary due process requirements.

Supplementary criteria for items to be included in the Annual Improvements process

Annual improvements are a subset of amendments to IFRSs and are subject to the same due process requirements as other amendments to IFRSs. The distinguishing feature of the Annual Improvements process is that several unrelated amendments are packaged together in a single exposure draft for efficiency purposes.

Annual improvements are a subset of amendments to IFRSs that are sufficiently minor and narrow in scope as to allow several unrelated amendments to be published collectively. The supplementary criteria¹ that need to be met for a proposed amendment to be included in the Annual Improvements process are:

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

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

- 1 clarifying unclear wording in existing IFRSs; or
- 2 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:

- 1 resolving a conflict between existing IFRSs and providing a straightforward rationale for which existing requirements should be applied; or
- 2 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 from a principle.

¹ The supplementary criteria for annual improvements are taken, unchanged, from the criteria for Annual Improvements approved by the Trustees in 2011. The other criteria for annual improvements that were approved by the Trustees in 2011 that are not included above, are addressed already by the general agenda criteria on page 16.

Appendix B—Summary of Interpretations Committee responses to feedback on operational matters

Issues raised	Response from the Interpretations Committee
General operating procedures <i>[efficiency and effectiveness of meetings—length, frequency, location, agenda materials, member participation]</i>	
<p>Meetings:</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 thorough discussions of all the issues. • Any changes to the agenda should be communicated in good time to all registered observers. 	<p>Meetings:</p> <ul style="list-style-type: none"> • The Interpretations Committee has two full days available for each of its meetings, and it is uncommon for it to need all of the time that is available for it to complete its work. 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 Interpretations 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 Interpretations 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>Agenda papers:</p> <ul style="list-style-type: none"> • Need to provide more evidence of research done to determine the extent of diversity in practice. • Papers can be too long/complex and suffer from 'scope creep' into areas beyond the request that was received. 	<p>Agenda papers:</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 feedback received. • There have been examples of scope creep in some of the issues that the Interpretations Committee has looked at. Although a wider consideration of an issue than that included in a submission is needed to properly identify the underlying cause of an issue, we agree that for both the efficiency and the effectiveness of the Interpretations Committee it is important that the scope of its work should be limited to the areas that are in greatest need of attention. The staff are monitoring agenda papers to keep the risk of scope creep in check. Where it is necessary to expand the scope of their work, the staff will make clear where and why they have taken a wider consideration, so that the Interpretations Committee can direct the staff to adjust the scope of the work where appropriate.
<i>continued...</i>	

...continued Issues raised	Response from the Interpretations Committee
General operating procedures <i>[efficiency and effectiveness of meetings—length, frequency, location, agenda materials, member participation]</i>	
<u>Agenda papers:</u> <ul style="list-style-type: none"> • The quality of the agenda papers will affect the effectiveness of the Interpretations Committee's discussions. • More time needed before the meetings to prepare, especially for complex issues—papers are sometimes posted late. 	<u>Agenda papers:</u> <ul style="list-style-type: none"> • 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 have recently established a target of posting papers at least 10 days before each meeting. The staff record and monitor posting times.
<u>General:</u> <ul style="list-style-type: none"> • Greater transparency is 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 IASB can be significantly delayed because they relate to projects that have been significantly delayed or removed from the agenda. 	<u>General:</u> <ul style="list-style-type: none"> • Since 2007 the Interpretations Committee considers all submissions in its public meetings. Since the start of 2011 the staff have published online all submissions that they have completed preliminary research for, but for which agenda papers will be presented at a future meeting. • All matters referred to the IASB are presented to it in the IASB's public meetings. The IASB's response to those referrals will be reported back to the Interpretations Committee. When there has been a delay to the expected timetable for a particular project in which the IASB has said it will consider the referred item, the Interpretations Committee will consider whether there is a need for it to take more immediate action.
<u>Communications:</u> <ul style="list-style-type: none"> • There is uncertainty about whether a request has been received by the staff or when it will be presented at a Interpretations Committee meeting. Respondents suggested that the likely timing of the issue being presented to the Interpretations Committee should be given. 	<u>Communications:</u> <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 discussed at the next Interpretations Committee meeting.
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...continued Issues raised	Response from the Interpretations Committee
General operating procedures <i>[efficiency and effectiveness of meetings—length, frequency, location, agenda materials, member participation]</i>	
<p><u>Communications:</u></p> <ul style="list-style-type: none"> The IFRIC <i>Update</i> 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. 	<p><u>Communications:</u></p> <ul style="list-style-type: none"> The style of the IFRIC <i>Update</i> newsletter used for both Interpretations Committee meetings and IASB meetings is intended to be a high level summary of the meeting, with a primary focus on the outcomes, rather than of the course taken by the discussion to reach the outcomes. The Interpretations Committee meetings are webcast, and the archive recordings are available on the IASB website for a period of time after each meeting, allowing all interested parties to listen to the discussions in detail. We understand that the concerns raised are perhaps most relevant to circumstances in which the Interpretations Committee decides not to take an issue onto its agenda because the extent of the explanation for its rationale is limited, compared with the explanations that are included in the Basis for Conclusions for IFRIC Interpretations and amendments to IFRSs, such as Annual Improvements. The Interpretations Committee and the IASB have agreed revisions to the form and content of rejection notices, as described on pages 12 and 13. All technical discussions are held in public, and all substantive comments on the agenda decisions are given by Interpretations Committee members in the public meeting. It is appropriate to continue to make editorial changes to agenda decisions offline. The transparency of the development of agenda decisions has also increased since 2010, with the publication of the draft wording of the tentative agenda decisions in the public observer notes.
<p><u>Leadership:</u></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 it in a neutral way because of the different points of view that are put across in the meeting. 	<p><u>Leadership:</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 Interpretations Committee members and the Chair are all committed to ensuring that this balance is struck appropriately and will monitor whether Interpretations Committee members think the right balance is being achieved.
continued...	

...continued Issues raised	Response from the Interpretations Committee
General operating procedures <i>[efficiency and effectiveness of meetings—length, frequency, location, agenda materials, member participation]</i>	
<u>Interaction with the IASB:</u> <ul style="list-style-type: none"> The recent heavy workload of the IASB has hindered its ability to efficiently consider the issues that the Interpretations Committee has referred to it 	<u>Interaction with the IASB:</u> <ul style="list-style-type: none"> The IASB has had a very heavy workload over recent years, which has limited the time available for it to spend on issues related to implementation. In July 2011 the IASB launched its consultation on its agenda, in which it identified the need to ensure that time is available in its agenda for the work related to maintaining the IFRSs, including having time available to respond to implementation issues. Consequently, the Interpretations Committee expects that there will now be more opportunity for the IASB to consider and discuss the matters referred to it.

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