

AGENDA PAPER

IFRS Foundation Trustees' meeting—Due Process Oversight Committee

Singapore

11-12 January 2012

Agenda ref

3B

Interim report on the Trustees' review of the efficiency and effectiveness of the IFRS Interpretations Committee

Introduction

The Trustees began a review of the efficiency and effectiveness of the IFRS Interpretations Committee in October 2010. Information was gathered through a public questionnaire that focused on whether the Interpretations Committee is achieving its objectives and sought suggestions for improving its operations. A similar, but separate, questionnaire was used to seek feedback from members of the Interpretations Committee (and from official observers). The review of the Interpretations Committee coincides with the ongoing Trustees' Strategy Review, which addresses the need for consistent application of IFRSs.

This interim report provides an update of the progress of the review of the Interpretations Committee and the next steps that are planned.

Results and responses

The feedback received from the questionnaires was summarised and presented to the Interpretations Committee. The Committee has discussed the feedback, including with members of the IASB and a Trustee. The summaries of the feedback presented

to the Interpretations Committee were provided in paper 3D¹ for the October 2011 Trustees' meeting.

In reflecting on the feedback, and after discussing it with the IASB, the Interpretations Committee has identified areas for operational improvements and strategic matters that require attention.

Operational efficiency

The Interpretations Committee has developed its proposed responses on the operational matters, and these are summarised in the appendix to this report. The Interpretations Committee has begun implementing these improvements.

Strategic matters

The Interpretations Committee has also begun to discuss and implement changes of a more strategic nature, with the full involvement of members of the IASB. In the review, the comments received focused on four general areas. It is these matters to which the Interpretations Committee and the IASB are responding.

(a) The scope of the Interpretations Committee's activities

There was general, but not exclusive, sentiment that the Committee should develop more guidance, while still respecting the principle-based approach of IFRSs.

In response, the Board acknowledges the importance of having a responsive interpretations process and that some changes are necessary to the way in which the interpretations process operates.

The Board and the Interpretations Committee have 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 balance between the principle-based approach of IFRSs and providing guidance with sufficient detail to ensure that it is useful and practical.

The Board supports the Interpretations Committee being more responsive to interpretation requests. Some of the steps being taken to achieve this are outlined in response to the next three issues.

¹ The October 2011 Trustees' meeting papers are available at:
<http://www.ifrs.org/Meetings/Trustees+October+2011.htm>

(b) *The appropriateness and application of the Interpretations Committee's agenda criteria*

Some respondents were concerned about the way the Committee applies the agenda criteria in determining not to take an issue onto its agenda.

Some of the agenda criteria are viewed as being inappropriate, either in general, or specifically in the way in which they are worded and applied:

- (i) The issue is widespread and has practical relevance—does an issue fail this criterion because it is only relevant in one country?
- (ii) There is diversity in practice—it was unclear how the Committee reached its conclusion on this criterion and what evidence was used to make this assessment.
- (iii) It is probable that the Committee will be able to reach a consensus on the issue on a timely basis. Many respondents view this as an inappropriate hurdle for adding an issue to the agenda, because they think that an inability to reach an agreement is something that can only be assessed after the issue has been added to the agenda and the Committee has debated it.
- (iv) The issue relates to a current Board project. Several issues were not taken onto the agenda because of current Board projects. Continuing delays to Board projects has led many to propose that this criterion should only be used to reject an item if the Board project has a high chance of being completed within, say, the next 12 months.

In response, the Interpretations Committee has decided to relax the criterion for when the issue relates to an active Board project. The Committee, with the support of the Board, will assess whether an interpretation can, and should, be developed for the intervening periods before a new standard is likely to be effective, rather than simply rejecting the matter.

To support an assessment of diversity in practice, the staff have recently started to routinely consult with National Standard Setters and intend to consult with securities regulators to collect evidence of diversity in practice. The information will be published as part of the assessment.

The DPOC has asked the Board to review and update its due process handbooks. That review, which will include a public consultation, is planned for the first half of 2012 and will include the process to be followed by the Interpretations Committee. The matters raised in the review of the Interpretations Committee will be considered as part of that review.

- (c) *The form that the Interpretations Committee's output should take, including the content of its agenda decisions (ie requests that the Committee rejected)*

Agenda Decisions (rejections) are not subject to the same level of due process and public scrutiny as an interpretation of amendment to an IFRS. They are subject to only a 30-day 'exposure' rather than a more formal comment period of 120 days. Some respondents were concerned that the rejections are used to give answers or guidance, making them, in effect, interpretations.

In response, the staff have begun a review of how rejections are drafted, with a particular focus on establishing criteria for limiting the reasons given for the rejection.

- (d) *How the Interpretations Committee should interact with the IASB*

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

In response, the Board has ensured that it has more Board members present at meetings of the Interpretations Committee and has established a Board Advisor group. The appointment of Wayne Upton was also designed to bring the chairmanship of the Interpretations Committee more within 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 Board is also conscious of not creating artificial distinctions between interpretations, annual improvements and discrete improvements. All interpretations must be ratified by the Board and any improvements must be approved by the Board, even if some of the work in developing them is undertaken by the Interpretations Committee. The Board is committed to improving its communication with the Interpretations Committee to ensure that any necessary improvements, whatever form they take, are developed efficiently.

Next steps

The Interpretations Committee meets next in January at which time it will continue its discussions on the strategic matters identified from the feedback received. These discussions include consideration of other steps that the Board and Interpretations Committee can take to be responsive.

The staff of the IFRS Foundation will monitor the initiatives already taken and report on their effectiveness, as well as on the results of these continuing discussions, to the Trustees in their public Trustees' meetings in July 2012.

December 2011

Appendix–Summary of Interpretations Committee responses to feedback on operational matters

Issues raised	Proposed response from the Committee
<p>General operating procedures <i>[efficiency and effectiveness of meetings–length, frequency, location, agenda materials, member participation]</i></p>	
<p><u>Meetings:</u> More time needed for quality discussion during meetings. Sometimes the time spent was too short to allow for quality discussions of all the issues</p>	<p><u>Meetings:</u> The 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 Committee members and the Chair are all committed to ensuring that this balance is struck appropriately.</p>
<p>Any changes to the agenda should be communicated in good time to all registered observers</p>	<p>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>

Issues raised	Proposed response from the Committee
<p><u>Agenda papers:</u></p> <p>Need to provide more evidence of research done to determine the extent of diversity in practice</p>	<p><u>Agenda papers:</u></p> <p>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.</p>
<p>Papers can be too long/complex and suffer from 'scope creep' into areas beyond the request that was received</p>	<p>There have been examples of cases of scope creep in some of the issues that the Committee has looked at. Although a broader 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 Committee, it is important that the scope of the Committee's work is limited to the areas that are in greatest need of attention.</p> <p>The staff is monitoring agenda papers to keep the risk of scope creep in check. Where necessary to expand the scope of their work, 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.</p>
<p>The quality of the agenda papers will affect the effectiveness of the Committee's discussions</p>	<p>The staff will continue to strive to develop clear agenda papers with reasoned arguments for all the issues that were analysed.</p>
<p>More time needed before the meetings to prepare, especially for complex issues—papers sometimes posted late</p>	<p>The staff is mindful of the need to post papers on a timely basis and has recently established a target of posting papers at least 10 days before each meeting. The staff record and monitor posting times.</p>
<p><u>General:</u></p> <p>Greater transparency needed about the</p>	<p><u>General:</u></p> <p>In 2007 the Committee abolished holding</p>

Issues raised	Proposed response from the Committee
<p>prioritisation process in handling and discussing requests that are brought to the meetings</p>	<p>a separate agenda Committee meeting in private and now considers all submissions in its public meetings.</p> <p>Since the start of 2011, the staff has published all submissions for which they have completed preliminary research, but for which agenda papers will be presented at a future meeting.</p>
<p>Resolution of issues that have been referred to the Board can be significantly delayed because they relate to projects that have themselves been significantly delayed or that have been removed from the agenda</p>	<p>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 that it will consider the referred item, the Committee will consider whether there is a need for it to take more immediate action.</p>
<p>Communications</p>	
<p>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 should be given.</p>	<p>Receipt of submissions is acknowledged and since the start of 2011 the staff have published all submissions for which they have completed preliminary research, but for which agenda papers will be presented at a future meeting. These submissions have generally been discussed at the next Committee meeting.</p>

Issues raised	Proposed response from the Committee
<p>The Update is too high-level and provides no indication of the debate that took place at the meeting. Enhanced minutes should be produced</p>	<p>The style of the Update 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 on the course taken by the discussion to reach the outcomes.</p> <p>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.</p> <p>We understand that the concerns raised are perhaps most relevant to circumstances when 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.</p> <p>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 the Committee should interact with the IASB. Part of those discussions is focusing on the content of agenda decisions, including consideration of whether a 'basis for conclusions' for agenda decisions would be appropriate.</p>

Issues raised	Proposed response from the Committee
<p>Drafting changes are sometimes not transparent</p>	<p>All technical discussions are held in public, and all substantive comments on the agenda decisions are given by Committee members in the public meeting.</p> <p>It is appropriate to continue to make editorial changes to agenda decisions offline.</p> <p>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>
Leadership	
<p>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>	<p>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 and will monitor whether Committee members think the right balance is being achieved.</p>

Issues raised	Proposed response from the Committee
Interaction with the IASB	
<p>The recent heavy workload of the IASB has hindered its ability to efficiently deliberate issues that the Committee has referred to it</p>	<p>The IASB has had a very heavy workload over recent years, which has limited the time available for it to spend on implementation-related issues.</p> <p>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 by the Committee.</p>