

## STAFF PAPER

19 - 21 March 2012

## March 2012 IASB Meeting

Project	Trustees Review of Effectiveness and Efficiency of the IFRS Interpretations Committee		
Paper topic	Summary of Issues and Status		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB Update.

**Introduction**

1. The Trustees' review of the effectiveness and efficiency of the IFRS Interpretations Committee commenced in October 2010 with the launch of two questionnaires; one for members of the Interpretations Committee and one for others, which was made publicly available on the IASB website for all interested parties to complete. The review of the Interpretations Committee coincides with the on-going Trustees' Strategy Review, which addresses the need for consistent application of IFRSs.
2. The results of the review have been discussed by the Committee in several meetings in 2011 and again in January 2012. These discussions involved the IASB Vice Chair, and IASB members who regularly observe the Interpretations Committee meetings.
3. The summary of the responses received on the two questionnaires was also presented to the IFRS Advisory Council in October 2011<sup>1</sup>. Additionally progress reports on the discussions by the Committee and IASB members were presented to the Trustees' Due Process Oversight Committee in October 2011<sup>2</sup> and January 2012<sup>3</sup>.

<sup>1</sup> IFRS Advisory Council paper 2: <http://www.ifrs.org/NR/rdonlyres/3BE2CBB0-0329-4BE8-B332-523B207F6DD1/0/AC10112.pdf>

<sup>2</sup> IFRS Foundation Trustees' meeting October 2011 paper 3D: <http://www.ifrs.org/Meetings/Trustees+October+2011.htm>

## **Purpose and structure of this paper**

4. The purpose of this paper is to present the Board with an overview of the feedback received from the review and a summary of the Interpretations Committee's proposed responses. It also asks the Board if it has any questions or comments on those proposals.
5. This paper includes in its appendices, the feedback from the review on operational matters (included in appendix A) and the feedback from the review on strategic matters (included in appendix B). These appendices also include the Interpretations Committee's proposed responses. The Interpretations Committee has already begun to implement its proposed responses to operational matters.
6. Proposals relating to feedback received on the Interpretations Committee's agenda decisions (rejection notices) was included in paper 15A for the February IASB meeting, and discussed by the Board at that meeting. These are not repeated here.
7. Accompanying this paper, in paper 10A, is a paper that was discussed by the Interpretations Committee at its March 2012 Committee meeting. That paper considers the feedback received on the Interpretations Committee's agenda criteria. It also includes proposals for revisions to the criteria. We will give the Board an oral update at the Board meeting of the Interpretations Committee's discussions of that paper.
8. The Board is asked for its views and comments on the matters arising from the review and the proposed responses to these. The next steps following the discussion of this paper will be to report the conclusions and recommendations to the Trustees meeting in April 2012.

## **Operational and Strategic matters arising from the review**

7. The issues arising from the review were analysed into two broad categories; operational issues and strategic issues. The Interpretations Committee analysed and addressed both of these.

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<sup>3</sup> IFRS Foundation Trustees' meeting January 2012 paper 3B:  
<http://www.ifrs.org/Meetings/TrusteesJanuary2012.htm>

8.      Appendix A to this paper sets out the Interpretations Committee's responses to the operational matters raised in the review. It has begun implementing these improvements. In summary, the main issues raised of an operational nature were:
  - (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
  
9.      Appendix B sets out a summary of the strategic matters arising and the Committee's responses. 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.

***Objectives and scope of the Interpretations Committee, including Agenda Criteria (Paper 10A)***

10. The responses from the survey revealed general, but not exclusive, sentiment that the Committee should develop more guidance, whilst still respecting the principle-based approach of IFRSs.
11. The discussions to date involving the Interpretations Committee and IASB members have indicated a common view that the Interpretations Committee should, working in partnership with the IASB, give more guidance that responds to the implementation needs of those applying IFRSs. Achieving balance between the principle-based approach of IFRSs and providing guidance with sufficient detail to ensure it is useful and practical is acknowledged as important.
12. Addressing a greater number of submissions using a broader range of responses is seen as necessary, ie the tools available to the Interpretations Committee should not be limited to just IFRIC Interpretations and Annual Improvements.
13. Paper 10A sets out further the matters arising from the review relating to this area and its interaction with the agenda criteria used by the Interpretations Committee. That paper includes the Committee's proposed responses. In summary it proposes how the Interpretations Committee might provide more helpful responses by using a broader range of solutions.

***Questions for the Board***

Does the Board agree with the proposed revised agenda criteria for the Interpretations Committee as set out in paper 10A?

Does the Board have any questions or comments on the proposed revised agenda criteria or on the objectives and scope of its work?

***Operational and strategic matters***

22. Appendices A and B set out the operational and strategic matters arising from the review, together with the Interpretations Committee's proposed responses.

*Question for the Board*

Does the Board agree with the proposed responses? Does the Board have any questions or comments on the issues raised and the Committee's proposed responses?

## Appendix A – Summary of Interpretations Committee Responses to feedback on operational matters

Issues raised	Proposed response from the Committee
<b>General operating procedures</b> <i>[efficiency and effectiveness of meetings – length, frequency, location, agenda materials, member participation]</i>	
<u>Meetings:</u> <ul style="list-style-type: none"> <li>More time needed for quality discussion during meetings. Sometimes the time spent was too short to allow for quality discussions of all the issues</li> </ul>	<u>Meetings:</u> <ul style="list-style-type: none"> <li>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.</li> </ul>
<ul style="list-style-type: none"> <li>Any changes to the agenda should be communicated in good time to all registered observers</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<u>Agenda papers:</u> <ul style="list-style-type: none"> <li>Need to provide more evidence of research done to determine the extent of diversity in practice</li> </ul>	<u>Agenda papers:</u> <ul style="list-style-type: none"> <li>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.</li> </ul>

Issues raised	Proposed response from the Committee
<ul style="list-style-type: none"> <li>Papers can be too long/complex and suffer from 'scope creep' into areas beyond the request that was received</li> </ul>	<ul style="list-style-type: none"> <li>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. 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.</li> </ul>
<ul style="list-style-type: none"> <li>The quality of the agenda papers will impact the effectiveness of the Committee's discussions</li> </ul>	<ul style="list-style-type: none"> <li>The staff will continue to strive to develop clear agenda papers with reasoned arguments for all issues analysed</li> </ul>
<ul style="list-style-type: none"> <li>More time needed before the meetings to prepare, especially for complex issues – papers sometimes posted late</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<p><u>General:</u></p> <ul style="list-style-type: none"> <li>Greater transparency needed around the prioritisation process in handling and discussing requests that are brought to the meetings</li> </ul>	<p><u>General:</u></p> <ul style="list-style-type: none"> <li>Since 2007 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 has published all submissions that they have completed preliminary research for, but for which agenda papers will be presented at a future meeting.</li> </ul>

Issues raised	Proposed response from the Committee
<ul style="list-style-type: none"> <li>Resolution of issues that have been referred to the Board can be significantly delayed because they relate to projects that have been significantly delayed or removed from the agenda</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Communications</b>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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 Committee meeting.</li> </ul>
<ul style="list-style-type: none"> <li>The Update is too high level and provides no indication of the debate that took place at the meeting. Enhanced minutes should be produced</li> </ul>	<ul style="list-style-type: none"> <li>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 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 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</li> </ul>



Issues raised	Proposed response from the Committee
	<p>and amendments to IFRSs, such as Annual Improvements. 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. 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>
<ul style="list-style-type: none"> <li>Drafting changes are sometimes not transparent</li> </ul>	<ul style="list-style-type: none"> <li>All technical discussions are held in public, and all substantive comments on the agenda decisions are given by Committee members in the public meeting.</li> <li>It is appropriate to continue to make editorial changes to agenda decisions offline.</li> <li>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.</li> </ul>
<b>Leadership</b>	
<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Interaction with the IASB</b>	
<ul style="list-style-type: none"> <li>The recent heavy workload of the IASB has hindered its ability to efficiently deliberate issues that the Committee has referred to it</li> </ul>	<ul style="list-style-type: none"> <li>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. In July 2011 the IASB</li> </ul>

Issues raised	Proposed response from the Committee
	<p>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.</p> <p>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>

## Appendix B – Summary of Interpretations Committee responses to strategic matters

Issues raised	Proposed response from the Committee
<b>Objectives and scope of the activities of the Interpretations Committee</b> <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>	
<ul style="list-style-type: none"> <li>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.</li> <li>Considering the expertise and practical experience of the members of the Committee, the Committee is possibly underutilised in assessing practice issues and proposing solutions</li> </ul>	<ul style="list-style-type: none"> <li>The Committee, working in cooperation with the Board, will consider a broader range of 'tools' on order to respond in a more helpful way to the submissions received.</li> </ul>
<b>Membership of the Interpretations Committee</b> <i>[number of members, the quality of their expertise, and geographical representation]</i>	
<p>Points raised:</p> <ul style="list-style-type: none"> <li>The Committee lacks preparers with specialist industry knowledge, e.g. financial services and insurance</li> <li>Lacks user and preparer representatives</li> <li>Geographical representation is unbalanced</li> <li>Jurisdictions where application of IFRS is not mandatory are over-represented</li> </ul>	<ul style="list-style-type: none"> <li>The Interpretations Committee values and appreciates the diversity within the Committee, however it considers the choice of members to be a matter for the Trustees.</li> </ul>
<b>Agenda Criteria</b>	
<p>Agenda criteria generally are not always consistently applied and are vague, requiring clarification.</p> <p>See paper 10A for further analysis</p>	<p>See paper 10A for further analysis</p>
<b>Output from the Interpretations Committee</b> <i>[Interpretations, proposals for inclusion in Annual Improvements and agenda decisions]</i>	
<p>Generally, the distinction between the three categories can be unclear</p> <p><u>Interpretations:</u></p> <ul style="list-style-type: none"> <li>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</li> </ul>	<p><u>Interpretations:</u></p> <ul style="list-style-type: none"> <li>The Committee, working in cooperation with the Board, will consider a broader range of 'tools' on order to respond in a more helpful way to the submissions received.</li> </ul>

Issues raised	Proposed response from the Committee
<p>increases</p> <ul style="list-style-type: none"> <li>• Identification of issues for interpretation needs to be clarified – some deal with widespread issues and some deal with very narrow issues</li> <li>• Interpretations should give guidance but not be rules-based – the level of detail in this regard varies</li> <li>• Unclear or complicated language is used in interpretations – difficult to understand and translate</li> <li>• Interpretations should not be based on tentative decisions of the IASB, nor should they be developed where there is no current IFRS</li> <li>• 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.</li> </ul>	
<p><u>Annual Improvements:</u> considered to be one of the Committee's activities that works best</p>	<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"> <li>• Are relied upon as de facto guidance or 'quasi-interpretations'</li> <li>• 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</li> </ul>	<p><u>Agenda decisions:</u> See paper 15A from the February 2012 IASB meeting for discussion of this matter</p>