STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	Trustees Review of Efficiency and Effectiveness of the IFRS Interpretations Committee		
Paper topic	Proposed new agenda criteria		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is 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 summary of the responses received on the two questionnaires has been presented and discussed with the Committee previously, and was also presented to the IFRS Advisory Council in October 2011[1]. Additionally progress reports on the discussions by the Committee and IASB members were presented to the

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

Trustees' Due Process Oversight Committee in October 2011[2] and January 2012[3].

Purpose of this paper

3. The purpose of this paper is to set out proposed changes to the agenda criteria for the Committee's work and to ask for the Committee's views and comments. These views and comments, together with those of the IASB, will be incorporated into our report to the Trustees in April 2012 on the proposed responses to the results of the review.

Background

4. 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.

5. 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.

6. 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.

7. The Interpretations Committee's discussions with IASB members have indicated support for the Interpretations Committee to provide guidance through:

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

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

(a) Mandatory requirements

(b) Non-mandatory guidance

8. The mandatory requirements could include:

(a) IFRIC Interpretations

(b) amendments to standards through:

(i) Annual Improvements; or

(ii) Proposals to the Board for targeted, narrow scope amendments that are beyond the scope of an Annual Improvement

(iii) Proposals for additional Application Guidance

9. Non-mandatory solutions, that the Committee could use to address issues include:

(a) Proposals for additional Illustrative Examples;

(b) Explanations via Agenda Decisions; or

(c) Referral to the Education Initiative, including proposals for inclusion in occasional staff articles

10. The Interpretations Committee Due Process Handbook states that the Committee "assists the IASB in improving financial reporting through timely identification, discussion and resolution of financial reporting issues within the framework of IFRSs". This is a clear description of the Committee's mission, and one that allows for a broad range of solutions, such as those listed above, to be used for addressing the issues submitted to the Committee.

11. Each of the above mechanisms for responding to issues submitted to the Interpretations Committee, in cooperation with the Board, is achievable within the current Due Process objective of assisting the Board, because all of these forms of output are part of the current framework of the literature.

12. However, if the output from the Committee might now take a broader range, then revisions to the Committee's agenda criteria would be appropriate.

The appropriateness and application of the Interpretations Committee's agenda criteria

13. The feedback received through the Review included comments on the agenda criteria and how they are applied. Some respondents were concerned about the way the Committee applies the agenda criteria in determining not to take an issue on to its agenda. Some of the agenda criteria are viewed as being inappropriate, either in general, or specifically in the way they are worded and applied.
14. Although these concerns have been raised about the criteria and their application, we think that having criteria continues to be essential for ensuring the basis for the Committee's decisions is clear and their application transparent.
15. Appendix A sets out the main concerns raised by respondents in respect of the Agenda Criteria, and the proposed responses that the Committee has previously considered.

Proposed revised agenda criteria

16. The proposed revisions to the agenda criteria are intended to take account of (i) the comments received about the agenda criteria and (ii) the proposal that the Committee deploy a wider range of solutions to the issues it addresses. This proposed single set of criteria would be used to assess all issues submitted to the Committee. This single set of criteria is intended to assist the Committee in determining when an issue should be addressed by it, as opposed to the Committee concluding that no action should be taken or that the matter should be referred to the IASB for its attention.
17. We think it is worth highlighting, two further points:
    (a) The Committee's "standing authority" for developing solutions to issues that amend the requirements of IFRSs is limited to IFRIC Interpretations and Annual Improvements. Accordingly, the Committee's proposals to develop other mandatory requirements (i.e. narrow-scope amendments to IFRSs that are beyond the scope of Annual Improvements or additional

Application Guidance) would need first to be agreed with the Board; this is also consistent with the objective that the Committee and the Board work in close cooperation.

(b) When the Committee concludes that the solution to an issue will require amendment to an IFRS (as opposed to the development of an IFRIC Interpretation, or the development of non-mandatory guidance), the Committee will assess whether it thinks that the Board should include the proposed amendment within Annual Improvements or whether a separate amendment to the IFRS is required. To make that assessment, the Committee would apply the Annual Improvements criteria. If the Committee concludes that the Annual Improvements criteria are met, it will propose its recommended solution to the Board. If the Annual Improvements criteria are not met, it will consult with the Board and seek the Board's agreement for it to develop a separate amendment.

18. The proposed single set of criteria for adding an issue to the Committee's agenda are:

(a) *Prevalence and significance*:

(i) The issue is widespread and has practical relevance; and

(ii) The issue is significant to those entities that it affects.

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

(b) Diversity in practice

(i) There is significant diversity in practice in the application of IFRSs in respect of the issue (either emerging or already existing in practice)

Financial reporting would be improved through elimination of diverse reporting methods. The Committee will pursue opportunities to significantly reduce diversity in practice elimination if 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 addressing in an efficient manner by the Committee, but not so narrow that it is not cost-effective for the Committee and its constituents to undertake the due process associated with the changes to IFRSs that would be required.

(d) Timeliness

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

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

19. After deciding to add an issue to its agenda, the Committee identifies the most efficient mechanism by which to provide guidance, eg, IFRIC Interpretation, amendment to IFRSs, etc. This assessment will require judgement and will include consideration of which mechanism will give the clearer guidance for those applying IFRSs. In some cases the form of the solution may become apparent only after the Committee has completed its technical analysis and debate

Additional criteria for Annual Improvements

20. Annual Improvements are a subset of amendments to IFRSs that are considered to be sufficiently minor or narrow in scope as to allow several unrelated amendments to be published collectively in an omnibus Exposure Draft. Annual Improvements follow the same due process as other amendments to IFRSs except that unrelated amendments are exposed together, rather than separately. Specific criteria were developed in 2011 to assist constituents, the Committee and the Board in deciding when an issue was suitable for inclusion in Annual Improvements.

21. We propose in paragraph 18 above that a single set of agenda criteria should be used for all issues that the Committee decides to address. Consequently only supplementary criteria would be needed to determine whether a proposed amendment to IFRSs should be included in Annual Improvements or proposed as a separate amendment. Using the criteria developed in 2011, the following supplementary criteria are proposed. These criteria would be applied in addition to those set out in paragraph 18 above. To be included in Annual Improvements, we propose that the following supplementary criteria should be met:

(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 straight-forward 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.

Questions for the Committee

22. Questions for the Committee relating to the prosed revised criteria for issues to be added to the Committee's agenda and for inclusion in Annual Improvements.

Question for the Committee – Revised criteria for issues to be added to the Committee's agenda
1. Does the Committee agree with the proposed revised criteria for adding issues to its agenda? 2. Does the Committee agree with the supplementary criteria for assessing when a proposed amendment should be included in Annual Improvements rather than be published in a separate exposure draft? 3.What comments does the Committee have on the proposed criteria?

Appendix A - IFRS Interpretations Committee Agenda Criteria

The following table sets out the current agenda criteria for IFRIC Interpretations, a summary of the concerns raised through the Trustees' review of the effectiveness and efficiency of the Committee and the proposed response to those concerns.

Existing Agenda Criterion	**Concerns raised**	**Comment / Proposed Response**
(a) The issue is widespread and has practical relevance	The first two criteria are closely related and the concerns raised on each are similar. Respondents urged the Committee to improve its research and assessment of these criteria, indicating that there was insufficient transparency of what steps the Committee had taken to assess these criteria (ie how was the assessment performed, who was consulted, etc). Respondents also encouraged the Committee to outreach to others in this area,	<u>Outreach</u> The outreach performed to assess how widespread an issue is and the extent of diversity in practice now includes outreach to national standard setters as a matter of routine. From 2012 this outreach will also include outreach to IOSCO and ESMA as a matter of routine. The details of the outreach undertaken, who responded (in broad terms) and information
(b) The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). An item will not be added to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.		

	such as national standard setters and the IFRS Advisory Council. Some respondents commented that the Committee should clarify what constitutes 'widespread' and 'significantly divergent'. Related to this were comments that: (i) When judging diversity in practice, the Committee members must consider whether the IFRSs are clear or not, and (ii) The Committee members (and constituents) must accept that a degree of natural divergence should be acceptable given the differing legal and environmental frameworks of jurisdictions and the need for the judgement to be exercised when applying IFRSs A practical question raised was whether an issue can be considered widespread if it is only relevant to one country and / or one	about the responses received is reported in the agenda papers. **PROPOSAL:** Information about the enhanced approach to outreach should be clearly communicated so that stakeholders are aware of the steps taken by the Committee to assess the need for standard-setting action when deciding whether to add an issue to the agenda. <u>Assessing 'widespread' and 'significantly divergent'</u> The application of judgement by the Committee members should remain an important part of the assessment against these

	industry?	criteria, and although eliminating diversity remains the objective, reducing diversity in practice significantly is recognised as a worthwhile improvement to financial reporting. On the question of whether an issue can be widespread if it affects only one country and/or one industry, the Committee notes that it is seldom that an issue is unique to one industry/country. However, in circumstances when outreach supports an assessment that the issue relates only to one country/industry, the Committee will consider how addressing the issue in a generalised manner might assist entities in other industries/countries, now or in the future. For example, it would be appropriate for the Committee to address the

		accounting for a type of tax, rather than a single country-specific tax. **PROPOSAL:** The two criteria should be retained. An explanation of how the Committee exercises its judgement in assessing the criteria, along the lines of the description above, including an explanation of applicability to a single country/industry, should be provided, either in the Due Process Handbook, or in a separate description of the how the Committee operates/fulfils its responsibilities.
(c) Financial reporting would be improved through elimination of the diverse reporting methods.	An observation made was that although elimination of diversity is the preferred outcome, there is value in reducing the range of diversity, and this would represent an	As noted above, although eliminating diversity remains the objective, reducing diversity in practice significantly is recognised as a worthwhile improvement to financial

	improvement in financial reporting.	reporting. **PROPOSAL:** This agenda criterion should be revised to reflect the view that when elimination of diversity is not possible, that the objective of reducing diversity in practice significantly would make the addition of an item to the agenda worthwhile.
(d) The issue can be resolved efficiently within the confines of existing IFRSs and the Conceptual Framework, and the demands of the interpretation process. The issue should be sufficiently narrow in scope to be capable of interpretation, but not so narrow that it is not cost-effective for the Committee and its constituents to undertake the due process associated with an Interpretation.	No significant concerns or comments raised on this item.	**PROPOSAL:** The criterion should be retained, but the language revised to be applicable to other mechanisms available to the Interpretations Committee in addition to the development of IFRIC Interpretations.

(e) It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.	There were many comments received on this criterion. In summary these were: (i) Is it appropriate that this criterion should be met in order for an issue to be added to the Committee's agenda? Perhaps this criterion would be better used after the Committee had added an issue to its agenda, and tried but failed to reach consensus? (ii) The application of the criterion could lead to significant issues not being dealt with because they are complex and would take time to resolve, yet the issues themselves would remain and affect the implementation of the IFRS. (iii) In circumstances when the Committee finds itself unable to reach a consensus, there should be other suitable resolution mechanisms, such as: a. Further consultation with an expert panel or other outreach; and/or b. Referral of the issue to the Board.	There are two issues raised, that need to be addressed; (1) How many Committee members are required to support the addition of an issue to the Committee's agenda? (2) Once added to the agenda, how should an issue be dealt with if the Committee is unable to reach agreement on the resolution of the issue, and when should this assessment be made? Regarding the number of members needed to support adding an issue to the agenda, the Due Process Handbook specifies (paragraph 26) that a simple majority is sufficient to add an issue to the agenda.

	(iv) There is confusion as to what the term 'consensus' means. Does it mean a. unanimous agreement (as per the dictionary definition of 'consensus'); or b. a simple majority of Committee members in agreement; or c. a super majority (eg no more than four members have voted against)	The Due Process Handbook also specifies (in paragraph 27) that over the course of a project, the Committee reassesses whether issues can be appropriately addressed within the mandate. It states that "if an issue has been considered at three meetings and there is still no consensus in prospect for either a draft or final interpretation, the Committee considers whether it should be removed from the agenda". These requirements are still a relevant and useful mechanism for dealing with projects that have been added to the agenda but on which the Committee is unable to reach a consensus. **PROPOSAL:** The current criterion should be deleted, but the guidance in the Due Process Handbook about the number of members

		needed to add an issue to the agenda and the requirement to reassess an issue after three meetings should be retained.

(f) If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Committee requires to complete its due process.	Several respondents raised concerns about long periods of uncertainty associated with some issues when this criterion has been used because of continuing delays to Board projects. The sentiment of many respondents was that this criterion should only be used to reject an item if the IASB project is active and the project has a high chance of being completed within the near term, for example 12 months. A related suggestion was that the Committee should monitor the IASB agenda and pro-actively pick up issues previously rejected if there are delays in the IASB's project.	The current criterion, as worded, is consistent with the sentiment expressed by many respondents that this criterion should only be used to reject an item is the IASB project is active and the project has a high chance of being completed in the near term. The length of the due process for an interpretation to be completed, from start to finish, is between 12 and 24 months. In order to address the concerns about the timetable of the IASB's project slipping, the Interpretations Committee should periodically review those mattes referred to the IASB and where appropriate re-evaluate the issue, with a view to adding the issue to the agenda if the IASB project is no longer expected to resolve the issue in a sufficiently timely manner.

		PROPOSAL: The criterion should be retained, however the wording should be revised to facilitate an issue being added to the Interpretations Committee's agenda if the Interpretations Committee can produce guidance on a more timely basis than the IASB. The Committee should also review such matters not taken onto its agenda periodically if the timetable of the relevant IASB slips.