

## STAFF PAPER

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## IFRS Advisory Council

<b>Project</b>	<b>Improving Consistent Application of IFRSs</b>		
<b>Paper topic</b>			
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This paper has been prepared by staff of the IFRS Foundation. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

**Introduction and purpose**

1. The first two objectives of the IFRS Foundation set out in its Constitution are to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles and to promote the use and rigorous application of those standards. The quality of application of IFRSs is a matter of great interest for us.
2. There are several stakeholder groups that have a direct role in the consistent application of IFRSs; including preparers, auditors and securities regulators. The IASB, as standard setter, should not, and has no desire to, take on the roles of any of these stakeholder groups, but it has an interest in supporting the consistent application of IFRSs.
3. The Trustees set out the following objective in Strategy Review 2011 of the IFRS Foundation:

In pursuing its mission, the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:

The IASB, as the standard-setter, should issue standards that are clear, understandable and enforceable.

The IASB will provide guidance on its standards that is consistent with a principle-based approach to standard-setting. Application guidance and examples should be provided when it is necessary to understand and implement the principles in a consistent manner.

The IASB will work with a network of securities regulators, audit regulators, standard-setters, regional bodies involved with accounting standard-setting, accounting bodies and other stakeholders to identify where divergence in practice occurs across borders. Where divergence in practice could be resolved through an improvement in the standard or an Interpretation, the IASB or the IFRS Interpretations Committee will act accordingly.

The IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application.

The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and, in these circumstances, encourage transparent reporting of such divergences at the jurisdictional level.

The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective

4. The purpose of this session is to describe the steps taken to date to support improved consistent application of IFRSs and to seek the Advisory Council's advice on ways we could develop these initiatives further.

## **IASB sub-committees**

5. The IASB has established a number of sub-committees to help it implement the Trustees' strategy, one of which is the Implementation Committee. Each Committee comprises three or four IASB members plus relevant senior staff.

### ***IASB Implementation Committee***

6. As at the time of writing this paper, the Implementation Committee has met once to discuss its role and develop draft terms of reference. The role of the Implementation Committee is one of facilitating the work of other aspects of the IASB in contrast to the role of the IFRS Interpretations Committee which is involved directly in technical matters.
7. The preliminary views of the members of the Implementation Committee are that the Implementation Committee:
  - (a) Should focus on the consistent implementation of full IFRSs, ie it should not, initially, focus on the IFRS for SMEs (the SMEIG has been established to identify and address implementation issues related to the IFRS for SMEs). The Implementation Committee should not focus on aspects of IFRSs that have been modified by endorsement bodies; aside from such modifications being rare, the members of the Implementation Committee thought that the IASB should not attend to the implementation of requirements that were inconsistent with IFRSs.
  - (b) Should identify ways to improve the IASB's intelligence gathering and sharing of implementation issues. Earlier identification and understanding of significant implementation issues through improved intelligence gathering and sharing provides us and those parties involved in the application of IFRSs with greater opportunities for timely resolution. As a first step, priority should be given to developing further our relationships with multi-lateral organisations that can provide information about consistent application of IFRSs. Engaging with multi-lateral organisations, as opposed to single bodies, will be an effective and efficient way to support consistent application of IFRSs. The focus should initially be on developing further our relationships

with securities regulators groups (IOSCO and ESMA) and the technical partners of the international audit firms. These stakeholder groups already have strong international networks working for the consistent application of IFRSs. Others with whom relationships should be developed further include prudential regulators groups, including our liaison with the Financial Stability Board.

- (c) Should ensure processes are in place so that intelligence received on significant implementation issues is discussed with relevant stakeholders on a timely basis and, as appropriate, directed to the relevant existing functions of the IFRS Foundation for appropriate reaction/response. The Implementation Committee does not plan to address technical matters itself, nor does it seek to initiate any form of enforcement. Where an issue concerning the application of IFRSs requires response by the IFRS Foundation, that matter should be addressed as applicable by:
    - (i) The IASB
    - (ii) The IFRS Interpretations Committee
    - (iii) XBRL staff
    - (iv) The IFRS Education Initiative
8. The Implementation Committee has developed draft terms of reference to summarise its preliminary views. This is included in Appendix A.

### **Development of networks with stakeholders**

9. At the June 2012 Advisory Council meeting, Advisory Council members discussed external involvement in the IASB standard-setting process. The focus of this session was on the project-related outreach undertaken by the IASB. Advisory Council members suggested potential enhancements to current outreach activities and thought that there was little risk that such processes would impair, or be seen to impair, the IASB's independence. Advisory Council members encouraged a focus on a combination of regional/geographic channels and industry/topic matter expertise, and more effort directed at emerging markets.

10. The discussion about development of networks at the June Advisory Council meeting made use of agenda paper 6 for that meeting. That agenda paper included a description of the existing interaction we have with various stakeholder groups, including investors, accounting standard setters, preparers, auditors and securities regulators.
11. Since the June Advisory Council meeting we have been exploring with IOSCO how we might interact more closely and frequently with them. In October the Chair of Trustees of the IFRS Foundation addressed the IOSCO board about our interest in working more closely with IOSCO and in November an IASB member and senior staff will attend the IOSCO meeting and a meeting of the IOSCO Policy Committee number 1 to discuss further.

### **Technical Enquiries Policy**

12. The IASB has, since its formation, held a policy that we should not provide a technical enquiries service. The main reason for this policy is that staff views could easily be seen as authoritative, creating another level in the hierarchy of IFRS literature without any of the safeguards and transparency that our due process requirements provide. However, there are consequences of this policy. Having a technical enquiries service could provide the IASB with a view of the types of issues that are troubling those working with IFRSs, as those issues are emerging. The more formal process for requesting an interpretation might act as a hurdle, such that the IASB is not made aware of issues until later in the financial reporting cycle. A copy of the technical enquiries policy is included in appendix B.
13. We do not propose to change this policy. Instead, we think it is more important to have mechanisms in place that ensure the IASB becomes aware of emerging issues in a timely manner.

### **Looking for problems?**

14. The Interpretations Committee addresses questions of implementation and interpretation when the issue concerned has general applicability. Almost all

issues discussed by the Interpretations Committee arise from formal submissions received from stakeholders. We grant anonymity to those submitting issues because we do not want the prospect of publicly identifying the submitter of an issue to discourage anyone from bring matters of concern to the Interpretations Committee's attention.

15. The Due Process handbook contemplates issues being brought to the Interpretations Committee by members of the Interpretations Committee or by IASB staff. This happens, but only occasionally. This raises the question about whether we should be more active in seeking issues affecting consistency of application of IFRSs with the objective of bringing these to the Interpretations Committee.

## Matters for discussion

16. Supporting the consistent application of IFRSs is important to us. Intelligence gathering and sharing about significant application issues can provide us and those stakeholders involved in the application of IFRSs with greater opportunities for timely resolution. We are putting in place processes and procedures to enhance our dialogue with targeted stakeholders in order to increase our knowledge of application issues on a timely basis. Where a response from us is appropriate to address concerns over consistent application of IFRSs, we have certain mechanisms in place already, such as the Interpretations Committee. However we welcome the advice of Advisory Council members on what we could do differently.
17. We would like Advisory Council members to discuss the following questions in the breakout sessions.

### Breakout questions

1. How proactive should the IASB be in looking for significant application issues of IFRSs? How do you think we should do this?
2. We have identified securities regulators groups (IOSCO and ESMA) and the technical partners of the large firms as the first groups with which we should enhance our engagement, to increase our intelligence of application issues. Do you agree? If not, where else do you think we should initially focus? Who next should we turn our attention to?
3. The preliminary view of the IASB Implementation Committee is that any application issues should be dealt with by the existing functions of the IFRS Foundation, such as the Interpretations Committee. Do you agree? If not, how do you suggest that application issues are addressed?
4. What other comments and advice do you have on the focus and role of the Implementation Committee?

## **Appendix A – IASB Implementation Committee – Draft terms of reference**

- A1. The IASB Implementation Committee has developed the following draft terms of reference:

The role of the Implementation Committee is to assess whether the appropriate functions are in place to ensure that the IFRS Foundation is receiving intelligence on IFRS implementation issues on a timely basis and conducting the appropriate follow-up. The Implementation Committee will identify opportunities for enhanced interaction with a range of stakeholders, prioritising engagement with multilateral groups and organisations (eg representative bodies). These stakeholders will include auditors, securities regulators, prudential regulators, users and preparers. The Implementation Committee will initially focus on the implementation of full IFRSs only. The Implementation Committee will monitor the success of this enhanced intelligence gathering and the appropriateness of the follow up action being taken in response to the intelligence received, for example by the IASB, the IFRS Interpretations Committee, the XBRL team or the IFRS Education Initiative.



## Appendix B – IASB Technical Enquiries Policy

A2. The IASB's technical enquiries policy is as follows:

### TECHNICAL ENQUIRIES

1. IASB Board members and staff frequently receive enquiries from our constituents. Those enquiries can come in a variety of forms, including:

- a. Telephone and email enquiries;
- b. Requests to review documents published by accounting firms, industry groups, or regulators;
- c. Questions following speeches; and
- d. Questions during meetings with constituents.

2. The IASB does not encourage constituents to submit technical enquiries, nor do we provide a formal technical enquiry service. We do not have the resources to do so. However, it is in our interest to hear about the problems that our constituents encounter. Technical enquiries also provide us with important information about developing practice. We should always be open to discuss technical topics. Our goal is to be helpful, but not to substitute individual judgements by Board members and staff for the work of the Board and IFRIC.

3. Generally, any preparer, auditor, analyst, journalist, standard setter, regulator, or academic may call the IASB and raise a question. However, there are questions that Board members and IASB staff decline to answer:

- a. Students. Our experience is that those enquiries are typically open-ended and consume more staff resource than we have available.
- b. Product design. Investment banks, accounting firms, leasing consultants and others sometimes raise questions about whether a proposed transaction will achieve a

desirable accounting treatment. The IASB does not participate in this activity.

c. Disputes. Our objective in answering enquiries is to assist constituents, not to arbitrate disputes. The IASB does not arbitrate disputes between a company and a regulator or between a company and its auditor.

d. Field office questions. Questions sometimes come from an accounting firm's local office or from the controller of a company's subsidiary. Such questions should be routed through an accounting firm's IFRS desk (if one exists) or a company's group accounting office.

e. Other literature. We do not interpret national GAAP, securities regulation, or other matters outside of IASB pronouncements.

4. Those who raise questions must understand that a response is the personal view of an individual member of the Board or its staff. The IASB encourages consultation among the Board and staff on technical matters. However, constituents must understand that responses, even after consultation, are not official positions of the IASB. Official positions of the IASB on technical matters are found in Standards and Interpretations.

#### REQUESTS TO REVIEW GUIDANCE MATERIALS

5. Accounting firms and industry groups often prepare guidance on the implementation of IFRS. These publications perform an important role in providing specialised guidance and answering implementation questions.

6. Guidance materials often have a long shelf life and sometimes take on an unofficial (but very real) status as accounting guidance. Because of this, the Directors must clear all requests to review guidance materials.

7. Before we can accept a request to review materials, the submitting organisation must agree to make whatever changes are proposed by the IASB team. We understand that some groups may be reluctant to accept that condition and will decide to go ahead without involving the IASB. Once a request is accepted, a small team of IASB Board members and staff to do the review. A staff member then assembles the comments and forwards them to the authors.

8. Organisations that request review must explicitly accept some limitations:

- a. Comments are those of the IASB team and do not represent official IASB positions;
- b. Views may change as practice develops and new standards are issued; and
- c. The organisation may not, under any circumstances, characterise a document as reviewed or cleared by the IASB or its staff.

#### ENQUIRIES FROM NATIONAL STANDARD SETTERS

9. National standard setters play an important role in the IASB process. Their questions can provide information about the application of our standards in particular jurisdictions and problems that local entities may be encountering. We strive to be cooperative with national standard setters, whether or not they are designated as liaison bodies.

10. National standard setters sometimes take on the role of intermediaries between local constituents and the IASB. This can be helpful, as a standard setter can help to frame questions and make the process more efficient. However, we recognise that a response may ultimately have broad dissemination. There is a risk that, without careful

attention, differing interpretations may develop in different jurisdictions. For that reason, we may suggest that questions be referred to the IFRS Interpretations Committee for consideration.

#### ENQUIRIES FROM REGULATORS

11. IASB Board members and staff frequently receive questions from securities, bank, and insurance regulators. We strive to cooperate with regulators. They are often our best source of information about how are standards are applied in practice. The general principles outlined in this policy apply to enquiries received from regulators as well.