

# AGENDA PAPER

IFRS Advisory Council

London 23 February 2015

Agenda paper 2B

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## IFRS Interpretations Committee—Update

### Purpose

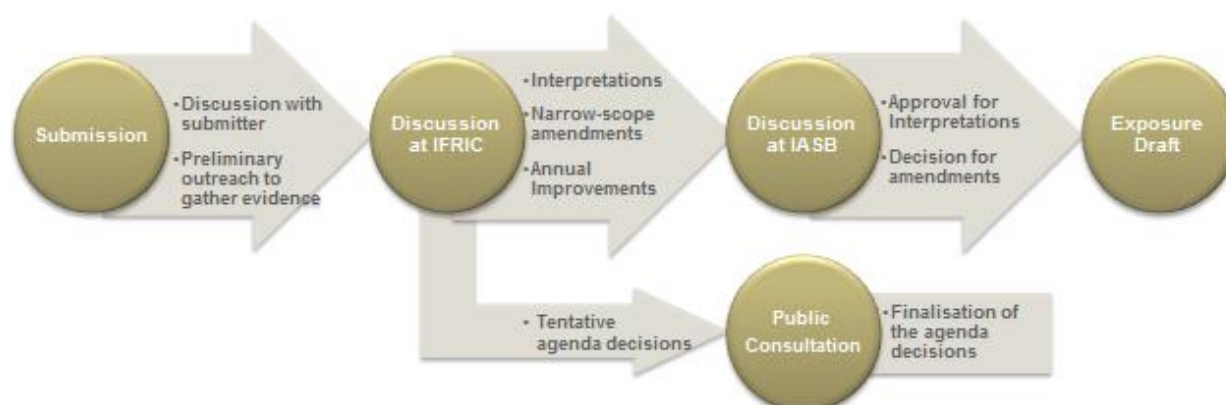
1. The implementation projects presented in agenda paper 2A are those that are on the IASB's agenda. Many of these originated at the IFRS Interpretations Committee. At this meeting we wanted to provide the Advisory Council with an overview of the work of the Interpretations Committee from 2014.

### Overview of Interpretations Committee processes

2. The Interpretations Committee meets six times each year and during 2014 it discussed 31 new issues on the application of IFRS. The role of the Interpretations Committee is to assist the IASB in improving financial reporting through timely identification, discussion and resolution of financial reporting issues within the IFRS framework. An important aspect of its work is to support the consistent application of IFRSs internationally.
3. The Interpretations Committee has a range of 'tools' with which to deal with the issues it discusses. These are:
  - (a) Develop an interpretation
  - (b) Propose a narrow-scope amendment to IFRSs
  - (c) Recommend an annual improvement to IFRSs
  - (d) Decline to take the issue onto its agenda and issue an agenda decision.
4. Each of these tools performs a different role and deciding how to respond to the issues submitted requires a degree of judgement on the part of the Interpretations Committee. The decision on whether or not to address an issue is based on an assessment against the Interpretations Committee's agenda criteria (see appendix A).

5. An interpretation does not change or conflict with the principles in an IFRS, but narrows the range of acceptable interpretations. An interpretation has the same level of authority as an IFRS.
6. Narrow-scope amendments and annual improvements amend IFRSs. Annual improvements are amendments that do not change a principle, and are relatively minor. They are intended to clarify unclear wording or address relatively minor unintended consequences, oversights or conflicts. Being relatively minor, an annual improvement is bundled with other unrelated annual improvements and exposed in one compendium Exposure Draft for 90 days. In comparison a narrow-scope amendment is intended to address matters that are more significant than an annual improvement. A narrow-scope amendment will only be bundled with other issues related to the same standard that is proposed for amendment, so that the proposals receive the prominence they deserve. Narrow-scope amendments are exposed for 120 days.
7. In contrast, an agenda decision reflects the conclusion of the Interpretations Committee either that no amendment or interpretation is necessary (for example because there is sufficient guidance in the standard), or that the issue is one that the IASB should consider (for example because the issue has broad significance and would be better considered as part of a broader IASB project).
8. In circumstances where the Interpretations Committee reaches the conclusion that there is sufficient guidance in the standards, and it reaches broad agreement on what the technical answer is to the issue submitted, it will explain its technical conclusions in the agenda decision. In these circumstances the Interpretations Committee is able to provide support to those affected by the issue, but without amending the standards by, for example, adding another example.
9. Those agenda decisions that contain the Interpretations Committee's technical conclusions do not form part of the IFRS literature, but given that they are published by the Interpretations Committee, they are subject to consultation before finalisation. All agenda decisions are published first in tentative form in the IFRIC Update newsletter, and open for comment for 60 days. This use of agenda decisions was one of the recommendations arising from the Trustees' review of the efficiency and effectiveness of the Interpretations Committee, which was published in May 2012.
10. Agenda decisions, as noted above, are not part of the IFRS literature. They therefore are not part of the requirements. However, they do reflect the considered views of the Interpretations Committee on the application of IFRS and therefore can be a useful resource for preparers and auditors when applying IFRS to circumstances similar to those discussed by the Interpretations Committee. In addition, some securities regulators have commented that they expect the issuers in their jurisdictions to consider the content of Interpretations Committee agenda decisions when preparing their financial statements.

11. The following diagram provides an overview of the Interpretations Committee processes with respect to submissions received.



### *Outreach*

12. An important part of the Interpretations Committee’s discussion and assessment is its consideration of how widespread each issue is and the extent of diversity in practice. To assist it with this assessment we undertake outreach on each issue to members of the International Forum of Accounting Standard Setters (IFASS), the International Organisation of Securities Commissions (IOSCO), the European Securities and Markets Authority (ESMA) and the large international audit networks. This is in addition to drawing on the experience of the Interpretations Committee members themselves. When we conduct this outreach, we ask for examples of the diversity that is observed, where these can be provided.

### *Interaction with the Transition Resource Groups*

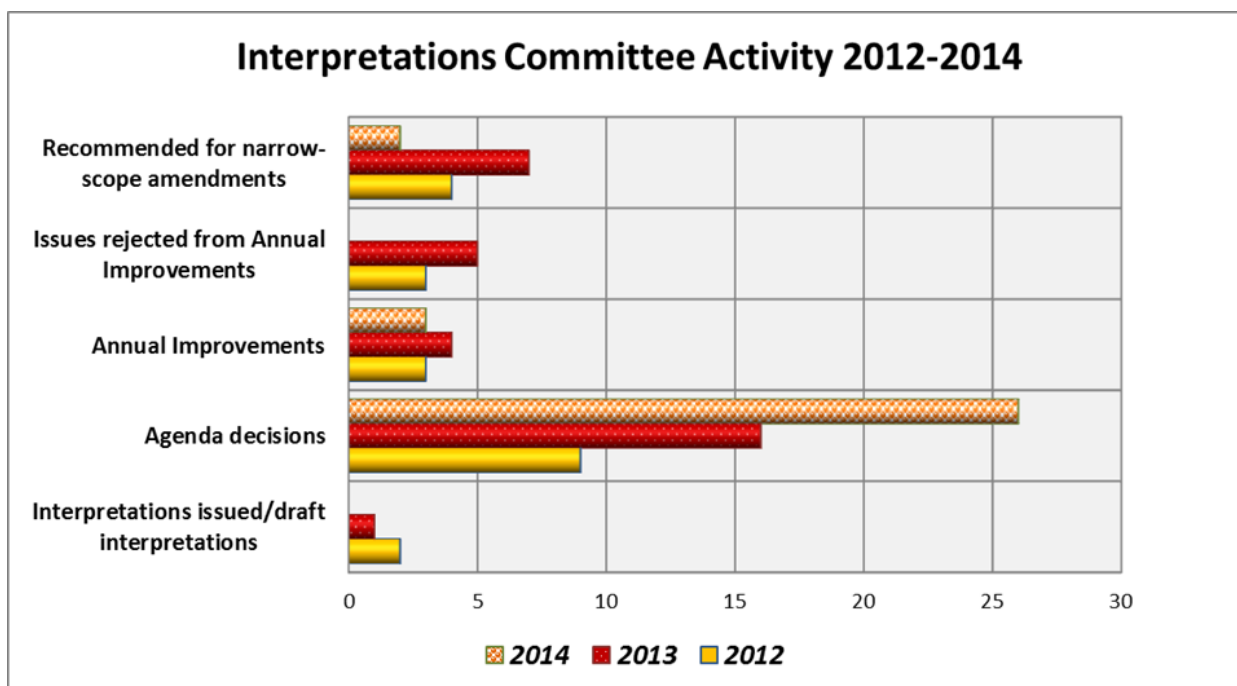
13. During 2014, the IASB established two transition resource groups in relation to two new Standards. One is the Revenue Transition Resource Group, established jointly with the US Financial Accounting Standards Board (FASB). The second is the Impairment Transition Resource Group. Consequently, issues submitted to the Interpretations Committee that relate to the scope of either of these two transition resource groups would first be referred to the staff for those groups for initial consideration.

### *Interaction with the IASB members*

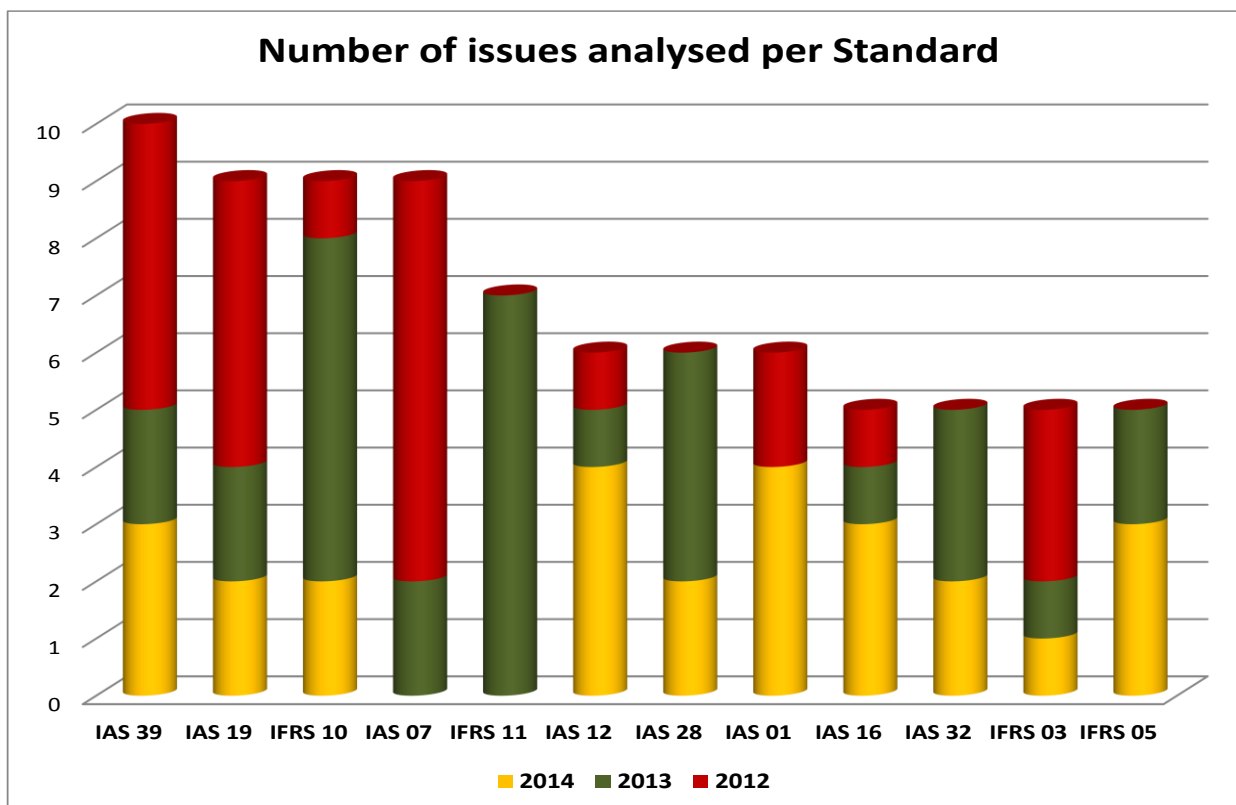
14. Four of the IASB members attend the Interpretations Committee meetings, performing a liaison role between the IASB and the Interpretations Committee. The staff provide IASB members with frequent briefings on issues being discussed by the Interpretations Committee, and where applicable feedback from IASB members to the Interpretations Committee is included in the Agenda Papers. These arrangements help ensure effective communication between the IASB and the Interpretations Committee.

## Overview of the Interpretations Committee activities

15. During 2014 the Interpretations Committee discussed 31 new issues, of which 84% (26) were dealt with through agenda decisions. Of these, more than half included the Interpretations Committee's technical conclusions, thereby providing assistance to those affected by the issues.
16. Of the remaining issues discussed by the Interpretations Committee in 2014, 10% (three issues) were recommended for inclusion in annual improvements.



17. The graph above shows the Interpretations Committee's activity over the last three years, analysed by how it has responded to issues that it has discussed. This shows a steady increase in the use of agenda decisions, relative to other ways of responding to submissions.
18. The graph also shows no interpretations issued by the Interpretations Committee in 2014. However, included in the Interpretations Committee's work in progress at the end of 2014 were two draft interpretations under development; one relating to accounting for tax uncertainties, and the other relating to the identification of the appropriate exchange rate for sales or purchases denominated in a foreign currency that involve a prepayment.
19. The graph on the following page provides an overview of the Standards for which most issues have been submitted to, and analysed, by the Interpretations Committee over the last 3 years.



20. The issue of a new Standard will naturally lead to a number of submissions relating to it, as stakeholders get to grips with how to apply it for the first time. This was the case, for example, with issues relating to IFRS 10 *Consolidated Financial Statements* (which was issued in 2011) and IAS 19 *Employee Benefits* (a significant amendment was made to IAS 19 in 2011). Financial reporting issues related, directly or indirectly, to the global financial crisis also feature in the issues submitted to the Interpretations Committee. Seven of the ten issues related to IAS 39 *Financial Instruments: Recognition and Measurement*, could be described as relating to the global financial crisis. The same could also be said for two of the IAS 19 issues.
21. Further details of the Interpretations Committee's work in 2014 can be found in Agenda Paper 15 from the IFRS Interpretations Committee's January 2015 meeting.<sup>1</sup>

<sup>1</sup> See <http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2015/January/AP15%20-%20IFRS%20IC%20Activity%202014.pdf>

## **Appendix A— IFRS Interpretations Committee Agenda Criteria**

The Interpretations Committee assess the issues it receives against the following criteria when deciding whether to address an issue.

The Interpretations Committee should address issues:

- (a) that have widespread effect and have, or are expected to have, a material effect on those affected;
- (b) where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and
- (c) that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.

The solution developed by the Interpretations Committee should be effective for a reasonable period of time. Accordingly, the Interpretations Committee would not normally develop an Interpretation if the topic is being addressed in a forthcoming Standard. However, this does not prevent the Interpretations Committee from acting on a particular matter if the short-term improvements can be justified.