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Topic	Trustees' Review of the Efficiency and Effectiveness of IFRS Interpretations Committee
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Introduction and background

1. The Trustees commenced a review (the review) of the efficiency and effectiveness of the IFRS Interpretations Committee (the Interpretations Committee) in October 2010 with the release of a public questionnaire. This questionnaire was issued as a means of evaluating the efficiency and effectiveness of the Interpretations Committee in achieving its objectives and to seek suggestions for improving its operations. This review coincides with the on-going Trustees' Strategy Review, which addresses the need for consistent application of IFRSs. A similar questionnaire was also used to seek feedback from members of the Interpretations Committee (and official observers) as part of the review.
2. This paper sets out summaries of the responses received from the two questionnaires. These summaries were prepared by staff of the IFRS Foundation, and not by staff involved in the work of the Interpretations Committee, to ensure appropriate independence and to maintain the anonymity of the respondents to the questionnaires. The summary of responses from the public questionnaire is included in Appendix A and the summary of responses from the members of the Committee (and official observers) is included in Appendix B.

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council of the IASB.

The views expressed in this paper are those of the authors.

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 Interpretation Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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Response to the findings

3. The summaries of the responses from the questionnaires were presented to the Interpretations Committee at its meetings in May and July by the IFRS Foundation staff and included a discussion with one of the Foundation Trustees.
4. Some of the feedback received related to the scope of the Interpretations Committee's work, the form that the outputs from that work should take and how it should interact with the IASB. These aspects of the feedback have been the subject of discussions between the Interpretations Committee and the IASB. The Interpretations Committee has considered the other feedback received and developed proposed responses.
5. The Interpretations Committee and the IASB have common views 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 see the importance of achieving balance between the principles-based approach of IFRSs and providing guidance with sufficient detail to ensure it is useful and practical.
6. The Interpretations Committee and the IASB are continuing discussions on these matters. These discussions are under the direction of a sub-committee of the Board, which includes the vice chair of the IASB.
7. The discussions include a focus on how the work of the Interpretations Committee can be more helpful and how the scope of its work and that of the Board should interface.
8. The Interpretations Committee has discussed the operational issues raised through the review and developed draft responses to the Trustees on the points raised. These draft responses are included in Appendix C.

Next steps

9. We will provide the Trustees with an update on the progress made at their meeting on 12-13 October. At that meeting we will also provide them with an

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oral update of the Advisory Council discussions on 10 October. We will report to the Trustees in January 2012 the outcome of the discussions between the Interpretations Committee and the IASB, along with proposed amendments, as appropriate, to the Interpretations Committee Due Process. We would expect that any proposed changes to the Due Process would be exposed for public comment before being made.

Question for the IFRS Advisory Council

10. What advice or comments do the Council members have for the IASB and the IFRS Interpretations Committee for consideration in their discussions of issues?

Appendix A

Summary of responses received from the public questionnaire on the efficiency and effectiveness of the IFRS Interpretations Committee

Overview

- A1. This paper analyses the feedback received in response to the IFRS Interpretation Committee Review Questionnaire, which the Trustees' Due Process Oversight Committee released for public comment on 25 October 2010. The questionnaire was issued as a means of evaluating the efficiency and effectiveness of the Interpretations Committee ('the Committee') in achieving its objectives and to seek suggestions in improving its operations. This review coincides with the on-going Trustee Strategy Review, which addresses the need for consistent implementation of IFRSs.
- A2. The comment period for public comments on the questionnaire closed on 31 January 2011. The Foundation received 34 responses. A similar questionnaire was issued to members of the Committee and a separate summary has been prepared for those responses (refer Appendix B).

Summary

- A3. In completing the questionnaire, respondents were asked to assign a rating across 24 performance criteria as well as providing comments on all aspects of the Committee's performance. It was emphasized that where a lower rating was assigned, that such rating should be supported by comments identifying areas needing improvement and suggested improvements. It should be noted that not all respondents completed the questionnaire, preferring instead to provide comments on those areas of particular concern or interest.
- A4. The aspects of the Committee that the respondents agreed with most and rated most highly were:
- (a) That the objectives and scope of the Committee are appropriate
 - (b) The Committee's communications are optimal and effective
 - (c) The Committee's activities are sufficiently transparent to stakeholders

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- (d) The geographical location of meetings (London)
 - (e) The Committee understands its objectives and how these link with those of the IFRS Foundation and IASB.
- A5. The aspects of the Committee's performance that respondents rated with most frequency as needing improvement were:
- (a) The content of agenda decisions when the Committee is unable to reach a consensus or when the Committee believes the Standards provide sufficient guidance
 - (b) The effectiveness of interpretations in meeting needs of constituents
 - (c) The appropriate and consistent application of agenda criteria
 - (d) The composition of the Committee's membership in terms of collective expertise, experience and geographical balance
 - (e) The effectiveness and productivity of meetings

Objectives and Scope of Activities of the Interpretation Committee

- A6. The objectives of the Committee are to interpret the application of IFRSs and provide timely guidance on financial reporting issues not specifically addressed in the IFRSs and to undertake other tasks at the request of the IASB. (The other tasks include making recommendations to the IASB on items to include in the Annual Improvements Process).
- A7. Most respondents commented that the objectives of the Committee were appropriate. Furthermore, some respondents commended the Committee for avoiding the proliferation of rules, and thereby upholding the IASB's objective of principles-based standards.
- A8. Other respondents suggested that the Committee may not always be fully meeting those objectives because of concerns about the timeliness of the interpretative process and the sufficiency of the interpretative guidance provided. For instance, some respondents commented that stakeholders expect more interpretation and application material than the IASB and the Committee currently provide.
- A9. Several responses highlighted the need for more clarity around the roles of the Committee and the IASB. There was an acknowledgement that work is already underway to consider when an issue should be resolved via an interpretation, an

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annual improvement, a standalone amendment or by referring the issue to a broader IASB project.

- A10. At least one response recommended that the roles of the Committee should be extended to enhance the ability of Committee to address improvements to IFRSs in timely manner.
- A11. Some other respondents noted that the principles-based nature of IFRSs means that the need for the Committee to interpret the application of IFRSs should be limited and they questioned whether this should remain as a primary objective of the Committee. They suggested that the Committee's efforts might be better invested in:
- (a) reviewing proposed improvements to IFRSs
 - (b) making recommendations to the IASB as part of the Annual Improvement project
 - (c) contributing to the forthcoming post-implementation reviews
 - (d) more generally, identifying implementation issues, assessing alternatives and developing solutions (especially at times when the IASB's agenda is full).
- A12. More generally, respondents noted that, with the development of additional standards and as the number of jurisdictions applying IFRSs increase, the Committee's role would increase in importance and the demands on the Committee would also increase. Consequently, it was suggested that the Trustees, the IASB, and the Committee should, at a minimum, re-examine the scope of the Committee's work.

Membership

- A13. Respondents broadly agreed that the size of the Interpretations Committee is appropriate and manageable, and that the Committee members possessed considerable expertise and practical experience.
- A14. Some respondents felt that it was desirable to have members with expertise that is reflective of major stakeholder groups. As currently constituted, the Committee has five members from audit firms but, at the same time, the Committee appears to lack preparers with experience in industries such as financial services and insurance, as well as lacking users (such as financial analysts and fund managers) and academics.

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- A15. Many respondents commented on the need for geographical diversity in the Committee so that a broad spectrum of views reflecting different business environments are taken into account. In particular, these respondents believe that the Committee would benefit from greater emerging market perspectives, including from Latin America, Asia and the Middle East. One respondent suggested that geographical representation could be modelled on that of the IASB.
- A16. There were several comments made on the high number of members from jurisdictions not currently applying IFRSs. These respondents stated that the goal of the Committee is to interpret current IFRSs, and that whilst useful insights into potential future problems can be presented by members representing future adopters, the Committee should primarily be composed of IFRS experts who apply IFRSs on an on-going basis.
- A17. Although geographical balance was seen as desirable, several respondents reiterated that the overriding criteria in assessing Committee members is the quality of contribution they offer in terms of expertise, experience and quality of contribution they offer to the discussion.

Operating Procedures

- A18. This section of the questionnaire examined efficiency and effectiveness of meetings in terms of length, frequency, location, agenda materials, and member participation.
- A19. Respondents agreed that with significant changes in the accounting framework and an increasing number of jurisdictions transitioning to IFRSs, it was likely that the requests referred to the Committee would increase. The organisation would need to consider how the Committee will deal with these potential changes in workload, such as through the scalability of its operations and working methods.
- A20. Several respondents felt that more time was needed for quality discussion during meetings. They suggested that the Committee should consider increasing the frequency and length of meetings, and that the scheduling of those meetings should be sufficiently flexible to allow the Committee to consider issues on a timely basis. One situation where the Committee had demonstrated this type of flexibility was in its decision to hold an extraordinary meeting in August 2009 to accelerate work on debt/equity restructuring.
- A21. There were other suggestions as to how timeliness and effectiveness of discussions could be enhanced including (i) increasing members communications between

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meetings (it was understood that currently there are restrictions on communications between members, but provided that these do not comprise a quorum, respondents felt it could promote better understanding of issues); (ii) creation of a number of standing committees on specialised topics such as financial instruments and business combinations to report back to the Committee (this could also provide a mechanism for the committee to better use members expertise and to gain access to specialists); (iii) reconsider the part-time status of members (although this could limit the degree to which members can engage in current IFRS practice).

- A22. The point was made that agenda deliberation and decision-making processes take a considerable proportion of the Committee's time, in particular, considering whether an issue falls into a specific 'bucket' of criteria. Some felt that this could be done more efficiently so that the Committee could concentrate on 'value-adding activities' while others emphasised its importance in ensuring transparency and quality outcomes. Respondents welcomed measures which improved this process. One respondent suggested establishing a planning committee to recommend items that the Committee takes onto its agenda, however it was noted by others that planning committee had previously existed and been discontinued, and the suggestion raised transparency concerns.
- A23. Respondents also commented on the quality, quantity and timeliness of agenda papers. While some agenda papers were of high quality, there is a sense among some other commentators that papers would benefit from greater or clearer analysis and demonstration of evidence regarding existing practice. It was felt that, although confidentiality of submissions should be maintained, more background information on outreach activities should be provided to Committee members to better inform decision-making, including the extent of diversity around a particular topic in practice.
- A24. Some letters pointed out that publicly-available papers sometimes contain staff interpretations that do not accord with current application of IFRSs. One accounting firm also cautioned that staff should not express views on appropriate accounting treatments until the agenda decision has been taken as this can cause further confusion and diversity in practice. Papers until this point should be restricted to why the issue should be added to the agenda.
- A25. Some respondents discussed the need for agenda papers being made available in a timelier manner to allow participants sufficient time to familiarise and consult about

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an issue. A couple of responses also highlighted the impact that lengthy or complex papers could have on the timeliness and quality of the Committee's outputs. .

Similarly, 'scope creep' or attempting to address issues beyond what was contained in the original request can also delay the ability of the Committee to deal with issues. While it was agreed that the Committee should consider the underlying causes of issues submitted rather than be bound by the original submission, there had been instances (such as when a submission has seemed to have prompted a clear out of unanswered questions) where it has been self-defeating.

- A26. One response suggested that the Committee would benefit from greater transparency regarding the Committee's prioritisation process in handling and discussing requests for guidance. It was also recommended that changes to the agenda should be communicated to all registered observers.
- A27. Another commonly identified shortcoming was in the process for following up issues referred to the IASB that have been significantly delayed or removed from the agenda.

Agenda Criteria

- A28. The Committee uses 6 agenda criteria to assess issues and decide whether they should be addressed through the issuing of an interpretation and, therefore, added to the Committee's interpretive agenda.
- A29. Although enhancements could be made to individual agenda criteria, it was the consistent application of the criteria and the processes for assessing and documenting criteria that many respondents considered needed improving.
- A30. There was a perception that the Committee tends towards a more restrictive interpretation of the agenda criteria, and while some felt that this was a reflection of the organisation's principle-based orientation, others felt there was a degree of subjectivity some of the issues that have been accepted and those which could have benefited from interpretation..
- A31. The Committee was urged to: (i) improve its research and assessment of the criteria that 'the issue is widespread' and 'there are significantly divergent interpretations'. Assessments should be documented in terms of how the assessment was performed (ie. who was consulted) and the responses received; and several respondents felt that further work should be undertaken with National Standard Setters (NSS) and the Advisory Council to explore the contribution they could make in this area; (ii)

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clarifying what constitutes ‘widespread’ and ‘significantly divergent’. In relation to the use of ‘significantly divergent’ criterion, one respondent believed there are instances where the criterion may have been interpreted too widely. Different environments and circumstances will lead to different accounting, but that interpretations are not intended to usurp judgement and replace it with rules. On the other hand, a strict application of the criterion can eliminate relevant issues.

- A32. Several respondents questioned the appropriateness of the criterion that the Committee would address an issue only if ‘it is probable that the Committee will be able to reach a consensus on a timely basis’. This could lead to significant issues not being dealt with because they are complex and would take time to resolve, while the issues themselves would remain and affect implementation of the relevant IFRS. It was recommended that the Committee should endeavour to reach consensus but that where this proved difficult, suitable resolution mechanisms such as deferral pending further consultations with an expert panel or other outreach, and referral to the IASB should be developed.
- A33. There was also some uncertainty with the meaning of the term ‘consensus’ in the context of that criterion and whether it is intended to assess the likelihood that the whole committee or just the requisite number of members would be able to reach a decision on a timely basis.
- A34. Respondents questioned whether the criterion that ‘The Committee will not add an item to its agenda if an IASB project is expected to resolve the issues in a *shorter period than the Committee requires to complete its due process*’ is taken into full consideration when rejecting an issue. They noted that decisions made on the basis of this criterion have led to situations where preparers and users faced long periods of uncertainty. The sentiment was that issuing guidance should be postponed only if the project is an active project of the IASB, and anticipated completion is in the near term. Effective date and availability of early application are factors which should be taken into account when assessing the time an IASB project is expected to take to resolve an issue. It was suggested that the Interpretations Committee should monitor the IASB agenda and pro-actively pick up issues previously rejected if there are delays at the IASB.
- A35. In addressing several sections of the questionnaire, some respondents felt that it was unclear how the Committee determines whether an issue should be subject to interpretation, or amendment via annual improvement or as a new or revised

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standard. Many appreciated that work was being done in this respect with the Annual Improvement Process amendments to the Due Process Handbook, and welcomed the clarity this would bring.

Output from the Committee

- A36. This section of the questionnaire examined the key outputs of the Committee, namely, interpretations, proposals for inclusion in Annual Improvements, and agenda decisions.
- A37. Respondents commented that the number of interpretations published was low in comparison to the number of agenda rejections. Some respondents saw this as a reflection of the principle-based approach to standard-setting and the determination of the Committee to not create rule-based interpretations. Other respondents, however, felt that this represented an expectation gap between the standard setter and its constituents on the volume of guidance that should be included in accounting standards and interpretations. This is a tension that is only likely to grow as more jurisdictions adopt IFRSs.
- A38. The main concerns raised in relation to the Committee's interpretations (or IFRICs) were the (i) appropriate identification of issues for interpretation - several respondents commented that there have been interpretations issued which they found to be limited in scope or situation specific (for example, IFRIC 15), while there have been other issues that were rejected but that could have benefited from some form of interpretation; (ii) the level of detail in interpretations in giving general guidance but not being rules-based (iii) the clarity provided in interpretations - at least one respondent found that the language used in interpretations can be difficult to decipher, and this is compounded when translated; (iv) interpretations should not be based on tentative decisions of the IASB, which are not authoritative literature; or (v) providing interpretations where there are no current IFRS.. *Stripping Costs in the Production Phase of a Surface Mine* was cited as an example of an issue that had been reduced to a narrow scope, the draft interpretation had been articulated around the development of rules, and introduced imprecise concepts that brought uncertainty to the issue.
- A39. In order to improve the quality of its interpretations and to bring them into line with IASB's due process for standards, one respondent suggested that the Committee might consider testing draft interpretations with interested preparers, auditors and

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users before publication, and to conduct post implementation reviews of interpretations.

- A40. More than half of the respondents rated Annual Improvements as effective in meeting the needs of constituents, and several listed the Committee's involvement in the Annual Improvements process as one of the aspects of the Committee's activities that works best. This would be further enhanced by work on Annual Improvement criteria.
- A41. There were numerous comments on the content of agenda decisions. It was acknowledged that the Committee had a difficult task in appropriately wording agenda decisions. While explanations may contribute to transparency of rejection decisions, it can lead to situations where agenda decisions (which are non-authoritative and not subject to full due process) are considered *de facto* guidance or 'quasi-interpretations'.
- A42. Several respondents requested that the Committee use explicit and clear references to the relevant provisions in the standards and interpretations in its agenda decisions; give better indications of acceptable/unacceptable treatments; state where it thinks more than one answer is acceptable; and avoid references to future IASB projects that are too uncertain or delayed.
- A43. It was also recommended that rejection statements clearly indicate their non-authoritative status. It should also be clear that they are developed on the basis of deliberations at a particular point in time and, because they are not revisited, the reasoning in a particular rejection may have been superseded by subsequent developments.
- A44. Given the difficulties experienced with the wording of agenda decisions, a small number of respondents suggested reconsidering the status of agenda decisions and approval processes applied to them. These respondents considered rejections as similar to amendments to application guidance that are approved by the IASB.
- A45. One respondent asked that consideration be given to providing a non-authoritative document to accompany the Update but which provides more detail on the views exposed by staff, the Committee's discussions and their conclusions.
- A46. Many respondents commented on the due process and comment period set for agenda decisions. The Handbook provides for a minimum period of *not less than 30 days*, however it was noted that 30 days is often set as the comment period and in many

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cases this does not provide sufficient time for constituents to analyse the issues. Extended comment periods should be considered for tentative agenda decisions that are (i) more complex (ii) less urgent or (iii) issued for comment during ‘busy’ times of the year.

Communications

- A47. Many respondents acknowledged that both communications by the Committee (and the IASB generally) and the transparency of its activities are improving. There was general support for the manner in which meetings are held publicly, meeting materials are made available via the website, proceedings are webcast, outcomes documented via the IFRIC Update and for there being consultation processes in place for agenda decisions, and draft interpretations.
- A48. Commentators called for improvements in the following areas: (i) acknowledging requests for interpretation together with an indicative timeframe of when a decision to include the issue on the agenda would be taken; (ii) keeping a publicly available list of issues together with the dates when issues are intended to be debated; (iii) giving more prominence to tentative decisions on the website; (iv) enhancing minute-taking (for example, through a non-authoritative supplement to the IFRIC Update) as the IFRIC Update is high-level and many constituents find it difficult to follow the debate that has taken place at the Committee’s meetings; (v) providing more transparency in the drafting of interpretations or agenda decisions, as there have been instances of last minute changes being made to published documents without explanation for the changes.
- A49. Several respondents specifically mentioned the importance of the Committee’s relationship with NSS and similar interpretative bodies. Although the Due Process Handbook makes provision for liaison with NSS in order to identify interpretative issues that the Committee might need to consider, respondents noted that this happens on an infrequent and inconsistent basis. NSS had up-to-date knowledge on applying standards and frequent communications with stakeholders in their jurisdictions which would benefit the work of the Committee, and respondents therefore encouraged the Committee and staff to increase dialogue and to implement a more formalised process for interacting with NSS and similar interpretative bodies.
- A50. At least one response also highlighted the importance of regulators and enforcement bodies continuing to raise issues with the Interpretations Committee where they note divergence in practice.

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- A51. The benefits of an international forum where matters of IFRS application and implementation are discussed were commented on. This happens to some extent in regions such as Europe but should also occur at a global level.

Leadership

- A52. Several respondents chose not to comment or were unable to comment on this section of the questionnaire.
- A53. Among the main issues highlighted was that, as more issues are brought to the attention of the Committee, respondents appreciated that a balance has to be found between length and quality of discussions. However, respondents stated it is important that all technical opinions can be expressed and that enough time is granted for adequate consideration of all relevant technical opinions to take place.
- A54. Respondents emphasised the significance of the role of the Chair in structuring and encouraging debate and summarising deliberations in a neutral way. This is particularly important as comments of Committee members can be unrelated to each other or statements of observation, and it may be difficult for observers to subsequently conclude why certain positions were taken.
- A55. It was also recognised that the quality of agenda papers is a factor in the effectiveness of the Committee's discussions, and that inconsistent quality can hinder the task of leading discussions.

Interaction with the IASB

- A56. This section analysed two elements of the Committee's interactions with the IASB. Firstly, how effectively the Committee interfaces with the IASB and secondly how responsive the IASB is to the Committee's recommendations.
- A57. Respondents confirmed the importance of maintaining an effective interface between the Committee and the IASB, and were supportive of continuing high level attendance and involvement by the IASB.
- A58. A few suggested that the quality of the work of the IASB and Committee could be enhanced if they interacted more frequently (for example, hold joint meetings to exchange views).
- A59. There were also opportunities to extend involvement through participation in post-implementation reviews, IFRS/IASB education activities including training

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workshops, and there was a suggestion that consideration be given to current IASB members chairing the Committee.

- A60. Recent heavy IASB workload has meant that the IASB has not always been able to deliberate issues it needs to address or respond as promptly to Committee requests. However, more coordination between the two bodies would ensure that issues are dealt with by the body that can deal with them in the most efficient way and help address concerns with establishing which issues should be dealt with by amending a standard and which are more akin to interpretations of existing IFRS.

Other issues

- A61. Some respondents requested further information on the next steps that follow the current consultation on the Interpretations Committee. Some also queried how this review links in with the other reviews (such as the Annual Improvements Process and the Strategy Review) being undertaken by the Trustees. One respondent noted that there was an opportunity to carry out a holistic review of the terms of reference and operations of bodies within the organisation's structure in order to streamline procedures and clarify roles and responsibilities. Another suggested that proposals for improving the Committee's operations be developed and put out for comment.
- A62. One respondent felt that the questionnaire was too narrowly focussed and failed to ask the fundamental question of whether there is a continued need for the Interpretations Committee in its current form.
- A63. Another issue that was identified in respondents' comments related to the interpretation of converged standards. How and by whom would converged standards be interpreted? The interpretation mechanisms of the standard setters (ie. the IASB and FASB) for standards that include the same guidance should be coordinated and the need for the Foundation to establish an agreement with the U.S. on interpretations for the convergence project was flagged.
- A64. Finally, the effective dates of IFRICs have been problematic for the EU. Normally IFRICs come into effect 3 months from IASB issuing date, which is shorter than for IFRSs. Due to the similar endorsement processes it uses for IFRSs and IFRICs, many IFRICs are adopted by the EU after the effective date set by the IASB. This creates unnecessary complications for users and preparers. There may be a need for further discussions with affected jurisdictions on how this might be resolved.

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Appendix B

Summary of responses received from the members and official observers to the questionnaire on the efficiency and effectiveness of the IFRS Interpretations Committee

Overview

- B1. This paper summarises the feedback received from the members of the IFRS Interpretation Committee ('the Committee') in response to the IFRS Interpretation Committee Review Questionnaire, which was issued by the Trustees' Due Process Oversight Committee on 25 October 2010. The Trustees issued the questionnaire to evaluate the efficiency and effectiveness of the Committee in achieving its objectives and to seek suggestions for improving its operations.
- B2. The Trustees also invited public comments on a similar questionnaire. The comment period for that questionnaire closed on 31 January 2011. This summary of Committee members' comments supplements the separate summary of responses from external respondents, which is presented Appendix A.

Summary

- B3. In completing the questionnaire, members were asked to assign a rating across 28 performance criteria as well as providing comments on all aspects of performance. It was emphasized that where a lower rating was assigned, that such rating should be supported by comments identifying areas needing improvement and suggested improvements.
- B4. There were a number of aspects of the Committee that members regarded as working well. In particular, members rated the following areas most highly:
- (a) The size of the Committee
 - (b) The location of meetings (London)
 - (c) The Committee's stated objectives and scope of activities are appropriate
 - (d) The frequency of meetings
 - (e) Communications
 - (f) The IASB responds effectively to the Committee's recommendations

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- B5. The areas that the Interpretations Committee members rated with most frequency as needing improvement were closely aligned with those identified by external respondents. These areas were:
- (a) The appropriate and consistent application of agenda criteria
 - (b) The content of agenda decisions when the Committee is unable to reach a consensus or when the Committee believes the Standards provide sufficient guidance
 - (c) The effectiveness of interpretations in meeting needs of constituents
 - (d) The effectiveness and productivity of meetings

Objectives and Scope of Activities of the Interpretations Committee

- B6. Members generally felt that the objectives of the Committee were appropriate but that the understanding and execution of those objectives has proved challenging. Some thought that the Committee has tended to construe its role narrowly and that the Committee would be more able to meet these objectives if it was less constrained in the issues it addresses. For instance, some members expressed their opinion that the focus has been on ‘interpreting the application of IFRS’ rather than ‘providing timely guidance on financial reporting issues not specifically addressed in IFRS’.
- B7. It was suggested that the scope of the Committee’s activities, operations and expected outputs should be revisited and clarified. In particular, the tasks outsourced to the Committee from the IASB and if the Committee can assist beyond considering interpretation issues and progressing the Annual Improvement Projects (AIPs).
- B8. Several members view the Committee as being well placed to identify and assess practice issues and propose solutions but that the organisation could make better use of this expertise.

Membership

- B9. Members of the Committee broadly agreed that the size of the Committee is appropriate and manageable, and that the Committee collectively is highly skilled and that the membership contributes a broad range of views and practical experience to discussions.

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- B10. At least two members felt that consideration should be given in future to representation from South America. Eastern Europe was identified as another region that is currently not represented on the Committee. Further, it was important to ensure that jurisdictions where application of IFRS is not mandatory are not over-represented.
- B11. Members noted that the Committee could benefit from the presence of more preparers and users, and that the Committee lacked expertise in certain topics such as financial instruments and insurance. With new standards on these fields being issued in the near future, this gap will need to be addressed in some way (whether through membership or feedback and consultation mechanisms).

Operating Procedures

- B12. The questionnaire specifically sought feedback on factors such as frequency, length and geographical location of meetings, and the quality, quantity and timeliness of agenda materials.
- B13. Several members expect that the number of requests for interpretations received by the Committee will increase due to the increasing number of countries adopting IFRSs and several new standards being published in the near future. In order to deal with additional workload, the Committee may need to reconsider a number of its working methods.
- B14. One area for reconsideration was meeting schedules. In order to accommodate the additional workload, members conceded that the Committee might have to consider increasing the length and/or frequency of meetings. Given that some members travel long distances, the optimality of a one and a half day meeting was questioned. There was also a suggestion on enhancing the scheduling of discussions, where new topics are discussed earlier on in the meetings and the review of tentative agenda decisions is held on the second day as these decisions require less debate because the issues are largely confirmed.
- B15. The advantages of holding meetings in London were acknowledged, however, at least one member thought there could be benefits in meeting in other locations, particularly in raising awareness of constituents and committee members.
- B16. The scale and availability of staff resources to support additional workload was also raised as a concern by members.

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- B17. Several members expressed the need for more time and information on issues, particularly as each issue has its own unique history and associated problems which members need to understand prior to the meeting. Ideally, materials should be available at least 2 weeks before the meeting but often this has not been the case, and members have found it difficult to undertake their own consultations in preparation for the meetings.
- B18. There was a range of views on the quality of staff papers. Some members considered that staff papers were generally well written, while others found that it was not unusual for committee members to disagree with staff views. The quantity of materials was generally not identified as a key concern, except where timeliness was an issue and on those occasions where the volume of papers was excessive. The dedication and responsiveness of the staff to members' requests was acknowledged, and the staff were encouraged to involve Committee members more during the drafting of issues papers.
- B19. Generally members' participation in meetings was judged to be good. Members attributed the instances where discussions were less effective other possible factors such as lack of preparation time, the extremely technical nature of the issue, limited opportunity to debate issues with other members, unwillingness of members to accept non-preferred options or adopting a constituency's view rather than their individual view.
- B20. Other areas that members suggested might enhance the operations of the Committee included re-examining the restrictions on communications among members between meetings and implementing a process for following up and reassessing issues referred to the IASB for resolution.

Agenda Criteria

- B21. Several Committee members expressed reservations about the agenda criteria and the consistent application of these criteria. The criteria could be somewhat vague, which made deciding which requests to take onto the agenda difficult and created uncertainty as to whether more could be done by the Committee to address the issues raised. The lack of clarity in the criteria also made it more likely that considerations such as the Committee's workload and the personal views and interests of members could influence the agenda decision-making process. Clarifying the criteria and

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improving members' and constituents' understanding of these criteria would alleviate some of these concerns.

- B22. Several members felt that consistent application of the criteria (particularly criteria (a) and (b) which relate to an issue's widespread nature, practical relevance and expected significant divergence in interpretation) would be improved with more research and outreach by staff in assessing issues against the criteria. Diversity is often quoted as a reason for taking on issues but there were times when diverse views may be expressed as a way of obliquely requesting a revision of a standard rather than that actual diversity exists in practice. An example of how claims might be better substantiated was via outreach with the National Standard Setters and similar interpretative bodies.
- B23. Further to criterion (b), more than one member noted that the responsibility of the committee when judging this criterion was whether the standard is clear or not. Several members also noted in relation to this criterion that there was a degree of natural divergence that should be acceptable given the differing legal and environmental frameworks of jurisdictions.
- B24. One member's comments on criterion (c) (which states that financial reporting would be improved through the elimination of diverse reporting methods), was that while elimination of diversity is the preferred outcome, there can be value at times in narrowing the range of diversity.
- B25. In relation to criterion (e) (which judges the probability that the committee will reach consensus on a timely basis), several members felt that on some issues the committee conceded relatively quickly that the issue might be too difficult to solve. There was the suggestion that with a greater ability to act and make proposals for changes, this criterion should be used less often. One view was that significant issues should be dealt with, and if the Committee could not agree, these issues should be elevated to the Board.
- B26. Criterion (f) requires that if the issue relates to a current or planned IASB project, there is a need to provide guidance sooner than would be expected from the IASB's activities. Several members felt that more work is required to ensure that IASB projects are likely to give solutions on a timely basis to those issues not retained by the committee as interpretations or improvements. There were also calls for the implementation of a process for following up on issues referred to the IASB and for

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the regular reassessment of issues to determine whether the Committee might best address them.

- B27. The Committee had also struggled with distinguishing between independent amendments, annual improvements and interpretations. As one member indicated, the Committee is seeking to deal with the issues referred to it in the best way possible and in a timely manner. Ideally, the issues should be subject to the same criteria for addition onto the agenda and due process regardless of the form of the solution. It was suggested that consolidating the agenda criteria and the annual improvement criteria would enhance the process. In addition, several members suggested identifying criteria to determine whether the issue should be addressed as an interpretations project or an annual improvements project. One member proposed that the distinctions between these might be the urgency of making the change and the degree of visibility to constituents.

Output from the Committee

- B28. The output of the committee takes a number of forms including the issuing of Interpretations, proposed inclusions in the Annual Improvements, recommendations to the IASB to address issues in some other way, and agenda decisions.
- B29. Some members felt that the low proportion of items accepted onto the agenda may signal that the committee is not meeting either stakeholders' expectations or its potential to assist stakeholders in understanding and application of IFRS. Others were also aware that timeliness is a crucial issue. One member commented the Committee was able to provide timely solutions, for example the committee played a significant role when there was a pressing need to provide guidance on IAS32.
- B30. As far as interpretations, the key concerns were that (i) given the considerable work that goes into producing interpretations, there is a need to ensure that there is sufficient clarity in the end product to meet the needs of constituents (IFRIC 15 & 18); (ii) the interpretations issued appeared to be quite heterogeneous with some addressing issues that have widespread relevance while others address very narrow specific issues (Stripping Costs in the Production Phase of a Surface Mine); and (iii) references to future development of IFRS should not be used to solve an issue – the content of interpretations should be based on existing IFRS.

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- B31. Several members mentioned that they felt the Annual Improvements process is working well, although one member cautioned that there were issues where the use of Annual Improvements would not be appropriate.
- B32. Members appeared to have significant concerns about the agenda decisions (or rejections). Drafting agenda decisions can be difficult and time-consuming particularly because they are considered relevant in preparation of financial statements even though they are not authoritative guidance. One opinion was that providing a ‘quasi interpretation’ in a rejection statement should be avoided unless there is clear and overwhelming agreement on the right answer.
- B33. Others felt that rejections could be better explained. For instance, where the committee believes the standards provide sufficient guidance, that guidance or paragraph in the Standards should be cited. The rejections also do not contain sufficient explanation to understand why the Committee has not been able to reach consensus.
- B34. How then should the Committee provide assistance but not cross the line of issuing ‘quasi-interpretations’? One approach for dealing with agenda decisions was to reconsider their status and approval processes in order to give same authority as IFRS. Another was to enable the Committee to issue more frequent short interpretations.
- B35. Several members recommended that a non-authoritative summary, which was more detailed than the current IFRIC Update and containing views exposed by staff, the committee’s discussion and conclusions, could be provided to constituents to assist them in their accounting policy decision-making. One member also felt that keeping and organising historical data on agenda decisions would contribute to the Committee’s work.
- B36. Finally, there were some concerns surrounding the due process of agenda decisions. The main concern was that the 30 day consultation period on tentative agenda decisions should be extended, particularly for more complex issues, to give constituents more opportunity to present comments. Secondly, there should be more visibility in the request for comments on agenda decisions.

Communications

- B37. Members generally agreed that the Committee’s communications are effective and appropriate. The availability of observer notes before the meeting, webcasts, podcasts

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and the timely distribution of the IFRIC Update all contributed to this. Where communication could be enhanced was in explaining the functions of the Committee to constituents and, as mentioned previously, in publishing a non-authoritative summary which was supplementary to the Update but provided fuller detail on agenda decisions.

- B38. Members were supportive of liaison with other interpretations bodies and National Standard Setters (NSS), however, they wished to be better informed about the consultation with the NSS and outreach activities generally. There was a view that liaison with standard setters could assist in the early identification of potential diverging practices or interpretations, and increase the capacity of staff to deal with specific application issues.
- B39. The example of where this approach had been trialled was in November 2010 when there was an urgent outreach on IAS1. Although, not all NSS were consulted and the response times were very tight, it was suggested that these aspects could be improved and that liaison with NSS should be extended to other issues.
- B40. One member also commented that the Committee had made substantial progress in terms of transparency through its communications and working methods, including in moving away from use of an agenda committee.

Interaction with the IASB

- B41. Members of the Committee stressed the value of Board members' attendance and insights. Although attendance and participation at Committee meetings has been variable in the past, this had improved and some thought was at about the right level at present.
- B42. Others indicated that they would prefer more active participation by the IASB members attending meetings, such that they have the ability to provide their views and take part in discussions more frequently.
- B43. Although the ratings indicated members were generally satisfied with the IASB's responsiveness to the Committee's recommendations, at least one member felt this could be improved. For example, a number of issues that had been passed to the IASB, because the Interpretations Committee felt unable to deal with them, have remained unaddressed.

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- B44. The Committee was seen as the front-line for questions on interpreting IFRS and identifying problems in the operation of IFRSs, and as the IASB and FASB's Memorandum of Understanding (MOU) projects are completed, maintenance and the operation of IFRSs will become more of a focus. In this sense, some members saw that the Committee and Board will be working together more closely and that the role of the Committee will take on more importance.

Other issues

- B45. One member drew attention to the Trustees' recent consultations on (i) Proposals to amend the Due Process Handbook in respect of the Annual Improvements Process (ii) the Status of the Trustees' Strategy Review (iii) the review of the Interpretations Committee. They recommended that the Trustees should analyse comments on all these documents before finalisation. For instance, feedback received through the Interpretation Committee Review may be worth considering before finalising the Annual Improvements Process amendments to the Due Process Handbook. Similarly, comments received from the Trustees' Strategy Review will be valuable in analysing the future role of the Interpretations Committee.

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Appendix C

Proposed responses from the Interpretations Committee

The following table includes the proposed responses from the Interpretations Committee to the feedback received via the Trustees’ questionnaire on the efficiency and effectiveness of the Interpretations Committee. These proposed responses do not include actions to address comments received relating to the scope of the Interpretations Committee’s work, the form that the outputs from that work should take and how it should interact with the IASB. These aspects of the feedback are the subject of on-going discussions between the Interpretations Committee and the IASB. The Interpretations Committee has considered the other feedback received and its proposed responses are included below.

Area of questionnaire	Issues raised	Proposed response from the Committee
<p>A. Objectives and scope of the activities of the Interpretations Committee <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></p>	<ul style="list-style-type: none"> • 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. • Considering the expertise and practical experience of the members of the Committee, the Committee is possibly underutilised in assessing practice issues and proposing solutions 	<ul style="list-style-type: none"> • 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.
<p>B. Membership of the Interpretations Committee <i>[number of members, the quality of their expertise, and geographical representation]</i></p>	<p>Points raised:</p> <ul style="list-style-type: none"> • The Committee lacks preparers with specialist industry knowledge, e.g. financial services and insurance 	<ul style="list-style-type: none"> • The Interpretations Committee values and appreciates the diversity within the Committee, however it considers the choice of members to be a matter for the

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	<ul style="list-style-type: none"> • Lacks user and preparer representatives • Geographical representation is unbalanced • Jurisdictions where application of IFRS is not mandatory are over-represented 	<p>Trustees.</p>
<p>C. Operating procedures <i>[efficiency and effectiveness of meetings – length, frequency, location, agenda materials, member participation]</i></p>	<p><u>Meetings:</u></p> <ul style="list-style-type: none"> • More time needed for quality discussion during meetings. Sometimes the time spent was too short to allow for quality discussions of all the issues • Any changes to the agenda should be communicated in good time to all registered observers <p><u>Agenda papers:</u></p> <ul style="list-style-type: none"> • Need to provide more evidence of research done to determine the extent of diversity in practice • It is confusing when the staff view and the agenda decision are different, and may 	<p><u>Meetings:</u></p> <ul style="list-style-type: none"> • 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. • 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><u>Agenda papers:</u></p> <ul style="list-style-type: none"> • 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

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	<p>lead to more diversity in practice</p> <ul style="list-style-type: none"> • Papers can be too long/complex and suffer from 'scope creep' into areas beyond the request that was received • The quality of the agenda papers will impact the effectiveness of the Committee's discussions • More time needed before the meetings to prepare, especially for complex issues – papers sometimes posted late <p><u>General:</u></p> <ul style="list-style-type: none"> • Greater transparency needed around the prioritisation process in handling and discussing requests that are brought to the meetings • Resolution of issues that have been referred to the Board can be significantly 	<p>feedback received.</p> <ul style="list-style-type: none"> • 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. The subject of the differences between the staff view and the Committee conclusion when an agenda decision is published will be part of this discussion with the IASB regarding the form and content of agenda decisions. • Sometime a broader consideration of an issue than that included in a submission is needed to properly identify the underlying cause of an issue. 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. • The staff will continue to strive to develop clear agenda papers with reasoned arguments for all issues analysed • The staff are mindful of the need to post papers on a timely basis and will try to avoid posting papers less than 10 days before the meeting. <p><u>General:</u></p> <ul style="list-style-type: none"> • Since [2005] 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 have published all submissions that they have completed
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	<p>delayed because they relate to projects that have been significantly delayed or removed from the agenda</p>	<p>preliminary research for, but for which agenda papers will be presented at a future meeting.</p> <ul style="list-style-type: none"> 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.
<p>D. Agenda criteria</p>	<p>Agenda criteria generally are not always consistently applied and are vague, requiring clarification. Current agenda criteria have been reproduced below, with specific comments noted:</p> <p>(a) The issue is widespread and has practical relevance</p> <ul style="list-style-type: none"> Not enough information around what research was done on diversity in practice <p>(b) The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The Committee will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice</p> <ul style="list-style-type: none"> As above <p>(c) Financial reporting would be improved through elimination of the diverse reporting methods</p>	<ul style="list-style-type: none"> 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. The discussions will include consideration of the agenda criteria with a view to improving the criteria and reflecting any changes that may be appropriate to the Interpretations Committee’s objective and scope of activities.

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	<p>(d) The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process</p> <p>(e) It is probable that the Committee will be able to reach a consensus on the issue on a timely basis</p> <ul style="list-style-type: none"> • This could lead to the Committee not addressing an issue because it is complex and would take time to resolve. The Committee concedes too quickly at times that the issue might be too difficult to solve • Uncertainty about the meaning of 'consensus' – unanimous decision or a working majority to reach consensus on a timely basis? <p>(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</p> <ul style="list-style-type: none"> • Some issues that have been referred to the Board end up not being resolved in a 'shorter period than the Committee requires' because the projects they relate to have been significantly delayed or removed from the agenda 	
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<p>E. Output from the Interpretations Committee <i>[Interpretations, proposals for inclusion in Annual Improvements and agenda decisions]</i></p>	<p>Generally, the distinction between the three categories can be unclear</p> <p><u>Interpretations:</u></p> <ul style="list-style-type: none"> • 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 increases • Identification of issues for interpretation needs to be clarified – some deal with widespread issues and some deal with very narrow issues • Interpretations should give guidance but not be rules-based – the level of detail in this regard varies • Unclear or complicated language is used in interpretations – difficult to understand and translate • Interpretations should not be based on tentative decisions of the IASB, nor should they be developed where there is no current IFRS • 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. <p><u>Annual Improvements:</u> considered to be one of the Committee’s activities that works best</p> <p><u>Agenda decisions:</u></p>	<p><u>Interpretations:</u></p> <ul style="list-style-type: none"> • 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. This will include discussion of the level (number) of interpretations, the nature of guidance to be issued, and whether the Interpretations Committee should extend its activities to include application guidance or implementation guidance. <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>
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	<ul style="list-style-type: none"> • Are relied upon as de facto guidance or 'quasi-interpretations' • 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 	<ul style="list-style-type: none"> • 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. This will include discussion of the content of agenda decisions. • The Committee proposes to keep with the current comment period of 30 days for tentative agenda decisions, unless the status of agenda decisions is changed following the discussions with the IASB in order that the comments are received in time to be brought to the next Interpretations Committee meeting.
<p>F. Communications</p>	<ul style="list-style-type: none"> • 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 be given. • The Update is too high level and provides no indication of the debate that took place at the meeting. Enhanced minutes should be produced • Drafting changes are sometimes not transparent 	<ul style="list-style-type: none"> • 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 presented discussed at the next Committee meeting • 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. The content of agenda decisions, including consideration of a 'basis for conclusions' for agenda decisions, will be discussed with the IASB. • All technical discussions are held in public, and some drafting comments are

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		<p>given by Committee members in the public meeting when those comments may be more significant than just drafting. It is appropriate that drafting changes to agenda decisions are made offline. With respect to the agenda decisions, since 2010, the draft wording of the tentative agenda decisions has been included in the public observer notes to further increase transparency.</p>
<p>G. Leadership</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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>H. Interaction with the IASB</p>	<ul style="list-style-type: none"> • The recent heavy workload of the IASB has hindered its ability to efficiently deliberate issues that the Committee has referred to it (same point as was raised in C and D) 	<ul style="list-style-type: none"> • The IASB still has a commitment to complete the four major projects on a timely basis, but with the passing of the June 2011 milestone, 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.