



31 January 2011

Our ref: ICAEW Rep 16/11

Your ref:

Mr Tsuguoki Fujinuma and Mr Robert Glauber
Vice-Chairs
IFRS Foundation
30 Cannon Street
London
EC4M 6XH

Dear Sirs

IFRS Interpretations Committee Review

ICAEW is pleased to respond to your questionnaire reviewing the IFRS Interpretations Committee.

ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance, which has over 775,000 members worldwide.

Please contact me should you wish to discuss any of the points raised in the appendix to this letter. We have not indicated a score out of four for any of the questions in the questionnaire, as we do believe it would be simplistic to allocate a score when the important issues require a more nuanced response.

Please do get in touch if you would like to discuss any of the issues raised in our response.

Yours sincerely

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Objectives and Scope of Activities of the Interpretations Committee

Views are invited on the following questions:

1. The Committee's stated objectives and scope of activities are appropriate to assist the IFRS Foundation and the IASB in meeting the objective of promoting the use and rigorous application of IFRSs.
2. The Committee understands its objectives and how these link with those of the IFRS Foundation and the IASB. This is reflected in the functioning of the Committee.
3. The Committee's activities appropriately reflect its objectives.
4. The Committee's experience and expertise are being efficiently and fully utilised by the IASB.

We applaud the achievements of the IFRS Foundation in recent years and in general do not believe that further significant constitutional change is necessary at present. However, whilst we feel that in principle constitutional stability is desirable, we recognise that the growing importance of the IASB as a global institution means that efforts should continue to ensure that the Board is a model of good governance and due process.

We believe that the objectives of the IFRS Interpretations Committee are fit for purpose and that major alterations to its activities and operations are not required. We have however set out in our answer to questions 11 & 12 below some concerns we have around the criteria for adding issues to the Committee's agenda.

We are impressed and encouraged by the reluctance of the Committee to issue a high volume of interpretations in response to the numerous requests it has received. There is a danger that the interpretation process becomes a vehicle for specific, particularly industry-specific insertions into IFRS that amount to the imposition of rules in the areas concerned. It is important to retain the principles focus of IFRS and avoid the accumulation of rules in a piecemeal and incoherent fashion over time.

The Committee should be prepared for increasing pressures to issue interpretations following the issue of the suite of new and amended IFRSs planned for June 2011 onwards, and as IFRS is extended to jurisdictions traditionally accustomed to a rules-based approach. It is essential that the Committee maintain its stance in the face of these pressures.

Membership

Views are invited on the following questions:

5. The Committee has a sufficiently broad range of collective expertise, experience and geographical balance to ensure its effective and efficient operation. The Committee membership achieves an appropriate balance of backgrounds and experience.
6. The size of the Committee is appropriate to achieve diversity of experience and background without being too large.

We are comfortable with the current composition of the Committee. We are concerned that there may be pressure, intensified following the 'credit crisis', for other regulatory bodies to be represented on IFRS Foundation boards. We feel that this is unwelcome. It is essential that the boards and committees of the IFRS Foundation are independent from outside influence, are thus able to properly assess the competing views and concerns of constituency bodies, and can consequently maintain the focus of IFRS on the information requirements of capital providers.

We recognise that it is desirable to achieve geographical balance in the composition of the Committee. However, we would reject any suggestion that this be a primary consideration. The foremost criterion in assessing potential Committee members must remain the quality of the contribution they are able to offer to the discussion. Where there is conflict, quality must clearly be allowed to prevail over geographical balance.

Operating Procedures

Views are invited on the following questions:

7. Committee meetings are efficient and effective in terms of:
 - (a) Frequency.
 - (b) Length.
 - (c) Geographical location (London).
 - (d) Quality of agenda material.
 - (e) Quantity of agenda material.
 - (f) Timely provision of agenda materials (observer notes).
8. There is high quality participation and interaction in the discussion by Committee Members in reaching consensus.
9. Committee meetings are productive and achieve their full potential.
10. The Committee is optimally placed to meet the future demand of stakeholders.

Following the issue of the suite of new and amended standards planned for 2011 the Committee should plan for a significant increase in the volume of requests put before it; in this context any measures to improve efficiency would be particularly timely. It should also be recognised that more meeting time may also be necessary.

Furthermore, as many of the standards to be issued by June 2011 are converged with the FASB we believe that some formal agreement may need to be reached regarding how, and by whom, these converged standards will be interpreted. For example, will responsibility be shared with the EITF or will a new body be established?

Agenda Criteria

Views are invited on the following questions:

11. The Criteria for the Committee's interpretative agenda are appropriate and adequate.
12. The Agenda Criteria are applied appropriately and consistently.

Generally we agree with the criteria currently established for deciding whether or not to add a particular issue to the Committee's agenda. However, we do not agree that the agenda criteria have always been appropriately applied in recent years.

The first criterion is that an issue is 'widespread and has practical relevance'. In our opinion this did not apply for IFRIC 18 *Transfers of Assets from Customers*; we did not agree that the issue being addressed was widespread. From a UK perspective we were not aware of significant diversity in practice and in any case we would naturally have expected different circumstances to lead to some variance in the accounting.

This leads us on to the second criterion, that there must currently be 'significantly divergent interpretations' in practice. We agree that this should be included as a criterion, but we believe it has been interpreted much more widely than it should have been. Different circumstances should be expected to lead to different accounting, and Interpretations should not be intended to usurp judgment and replace it with rules. For example, in our response to DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine*, we pointed out that this area inherently required difficult judgments. In our view the IFRS should simply set the principles and leave these to be applied in practice, rather than providing a pinpoint definition in a highly subjective and technical area.

We are also concerned that it is not currently clear how the work of the Committee should interface with that of the IASB. There is an agenda criterion limiting Committee consideration where an issue is subject to an active IASB project, but there is no similar requirement to consider equivalent or related treatment in existing IFRS. This was clearly illustrated by the Committee's project in 2010; IFRS 2 *Share-based payment* - Vesting and non-vesting conditions, where it was discussed whether definitional changes to IFRS 2 should be addressed through an Interpretation, an annual Improvement, or a mainstream amendment to the standard. In our opinion such far reaching changes are better addressed by the IASB through the proper due process for mainstream

standard revision. This approach was indeed taken for IFRS 3 *Business Combinations*, where the Committee decided in two instances in November 2009 to defer to the IASB to improve the clarity of the standard. Greater consistency in approach would be beneficial.

This disparity is further illustrated by DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine* which is inadequately linked to the principles of IAS 16 *Property, Plant & Equipment* and IAS 38, *Intangible Assets*, to which it clearly relates. Interpretations must be subordinate to existing IFRSs in their relevant areas; it should be clear that they exist solely to provide application guidance on a specific issue, not to introduce rules and certainly not to introduce new principles. The linkage of minor amendments back to the principles of the relevant IFRS should be established and understood.

We appreciate that improvement in this area requires the buy-in of the IASB as well as that of the Interpretations Committee, and therefore we suggest that the Committee work with the Board to establish greater clarity around and demarcation between the areas of standard revision that each is responsible for. We welcome the changes to the Due Process Handbook proposed in the IFRS Foundation's request for views on the criteria for the annual improvements process; these changes will formalise the boundaries of an annual improvement and will prevent this form of minor amendment being used for changes to principles. In our response to that consultation (ICAEW REP 133/10) we suggested that this restriction be extended to also include Interpretations.

Finally in this context, we acknowledge that one purpose of the Committee is to provide timely guidance on financial reporting issues not specifically addressed in IFRS. However, we do not believe that this amounts to a *carte blanche* for the Committee to break new-ground in areas of accounting outside the scope of current IASB literature. For example, in our response to the consultation on IFRIC 17 *Distributions of Non-cash Assets to Owners*, we questioned whether this issue really fell to the IFRSIC to deal with, given the absence of IASB literature on transactions with owners on which to base an interpretation.

Outputs from the Committee

Views are invited on the following questions:

13. The Interpretations issued and Annual Improvements proposed meet the needs of the IASB and the IFRS Foundation.
14. The Interpretations issued are effective (their number, frequency and content) in meeting the needs of constituents.
15. The Annual Improvements issued are effective (their number, frequency and content) in meeting the needs of constituents.
16. Agenda decisions are issued when the Committee decides not to take an issue onto its agenda. Some of these agenda decisions do not propose any further action. The content of such agenda decisions is appropriate and sufficient when:
 - (a) the Committee believes the Standards provide sufficient guidance
 - (b) the Committee is unable to reach a consensus
17. The consultative due process for agenda decisions is appropriate and sufficient.

Due to the language employed to explain the Committee's decisions, Interpretations can often be quite difficult to decipher. Readers may need to re-read the paper several times, carefully turning over each phrase, to determine the Committee's intention. The consensus needs to be very clearly elucidated if it is to be consistently understood, particularly in translation.

In terms of the expression of those issues that the Committee decides not to add to its agenda, in some cases the Committee has expressed that the answer should be obvious. However, if it truly were obvious, then it can be argued that there would be no call for the Interpretation in the first place. We feel that a fuller explanation would be preferable in these cases, particularly as the reasons why the issue is raised may not be due to a deficiency in the standard, but rather because an affected party does not approve of the required treatment.

We are further concerned that the way in which an Interpretation is articulated can in some cases amount to the establishment of a new 'bright line'. An example of this is provided by IFRIC 10 *Interim Financial Reporting and Impairment*; paragraph 8 and 9 of this Interpretation are worded in very stark terms; where prescriptive requirements of this type are necessary, we feel that they should be embedded within the body of the relevant standard rather than being presented as an Interpretation. We believe that this Interpretation would have been better issued as an annual improvement.

In our response to the IFRS Foundation consultation *The annual improvements process: Proposals to amend the Due Process Handbook for the IASB* (ICAEW REP 133/10), we agreed with the proposed amendment to the Handbook to prohibit the use of annual improvements to make changes to IFRS principles. In that letter we explained that we believed this prohibition should be extended to include all forms of minor amendments, including IFRSIC Interpretations.

In that response we also noted that a prohibition should be established on the use of minor amendments to introduce additional treatment options into an existing standard when at a later date the original treatment is then withdrawn. A recent example of this practice can be found in the 2010 Exposure Draft *Presentation of Items of Other Comprehensive Income*; which proposed to eliminate the option of presenting a separate income statement and statement of other comprehensive income - an option that had only been introduced in 2007 as part of the presentational changes in the revised IAS 1 *Presentation of Financial Statements*. This practice amounts to standard setting by stealth outside of proper due process, and should not be permitted.

Communications

Views are invited on the following questions:

18. The Committee's communications are optimal and effective (IFRIC Update and post-meeting podcast)
19. When appropriate, the Committee and/or the Committee staff liaises effectively with other similar interpretations bodies and National Standard Setters.
20. The Committee's activities are sufficiently transparent to stakeholders.

We are supportive of the Committee's communication initiatives. IFRIC Update is a timely and detailed publication that provides a good insight into the decisions of the Committee and its due process, as well as being a practical working document for those who must implement the resultant Interpretations in their own businesses.

Leadership

Views are invited on the following questions:

21. Please rate the effectiveness of the Chair.
 - (a) Discussions are at the appropriate level of detail.
 - (b) Discussions are focused on the right issues.
 - (c) Issues are identified and deliberated in a timely and effective manner.

As noted in our response to questions 1 – 4, we believe that in some recent cases Interpretations have not been focussed on the right issues. We also believe that the deliberation process could be more efficient, particularly in light of the increase in workload that the Committee can expect following the issue of the suite of new and amended standards due in 2011.

Interaction with the IASB

Views are invited on the following questions:

22 The Committee interfaces effectively with the IASB

23 The IASB responds effectively to the IFRS Interpretations Committee's recommendations

We believe it is very important that an effective interface be maintained between the Committee and the IASB. Please see our answer to questions 11 & 12 where we express concern regarding the operation of this interface.

Other comments

List three aspects of Committee's activities that, in your opinion, are working best

We request you refer to our earlier answers

List three aspects of Committee's activities that, in your opinion, are in the most need of improvement

We request you refer to our earlier answers

Do you have any suggestions on improving the process of assessing the Interpretations Committee?

No other comments at this stage.