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24 February 2011

International Financial Reporting Standards Foundation
Board of Trustees
30 Cannon Street
London EC4M 6XH
United Kingdom

Via: interpretations-comm@ifrs.org

Subject: Review of the operational efficiency and effectiveness of the IFRS Interpretations Committee

Our Reference: 2011/IE/TCSC1/IFRSF/20

Dear Trustees:

The International Organization of Securities Commission's Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) thanks you for the opportunity to respond to the questionnaire associated with your review of the operational efficiency and effectiveness of the IFRS Interpretations Committee (the Committee). The International Organization of Securities Commissions (IOSCO) is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement.

Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of SC 1. They are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Context of Our Response

The purpose of the Trustees' questionnaire is to obtain comments on whether the Committee meets its objectives and to receive suggestions on how its operations could be improved. However, we decided not to give ratings as is requested from respondents. We fear that such ratings, being quite subjective, may not convey our views in a sufficiently nuanced way. Therefore, we have decided to provide comments in this letter on the questionnaire areas which we feel are the most important. To

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complement this input we would very much appreciate discussing this matter further with you. SC 1 has two of its members with direct experience of how the Committee operates who are available to do so.

General Observations

SC 1 is very much involved in the Committee's activities since our organization has been present at the Committee, as an Official Observer, since its creation. As such we have watched the growth and development of the IFRS interpretive function carried out by the Committee and its predecessors. We welcome this new initiative from the Trustees to seek comments in order to further improve the Committee's work process. We acknowledge that the Committee has already sought feedback from constituents in the past in order to improve the efficiency of its activities. We believe that with the development of additional standards, and the increase in the number of jurisdictions where IFRS are applied, the Committee's role is very likely to grow further in importance in the future. We believe more questions will be raised by stakeholders due to the growing number of jurisdictions implementing IFRS.

We note that the questionnaire did not include items that addressed the composition of the Committee; however, we do have one observation in this regard. We believe the Trustees should seek ways to enhance the diversity of the Committee so it better reflects the range of those in the capital markets who are affected by IFRS. This could be accomplished by increasing the number of those who bring the investors' perspective and decreasing the relative concentration of the Committee towards the experiences of the audit firms.

In terms of process for this review, we feel that the Trustees could usefully clarify what next steps will follow the current consultation. Do the Trustees intend to reach out further and hold meetings with a selection of stakeholders, Committee members or with the IFRS Advisory Council? In terms of outcome of the review, do the Trustees intend to amend the Committee's existing processes or to simply give a feedback to the IASB and the Committee on the comments received?

Responses to the Trustees' Questions

Questions 1-4 - Objectives and Scope of Activities of the Interpretations Committee

In our view, providing interpretative guidance on financial reporting issues not specifically addressed in IFRSs is appropriately a key objective of the activities of the Committee. Regulators sometimes face difficulties in enforcing IFRS due to a lack of authoritative guidance. However, many requests are rejected on the basis that an appropriate response to these requests would result in the publication of application guidance. Similarly, the Committee sometimes rejects submissions received because its members feel that they will not be able to reach a decision quickly enough. These two reasons for rejecting submissions do not seem appropriate in the broad sense of why the Committee exists. These



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submissions may highlight a need for clarification, weaknesses in the implementation guidance provided by the standards or diverging views held by large audit firms. We therefore believe that the Committee should, contrary to its current practice, have a remit that provides for a manner of handling these rejected issues more comprehensively. In our experience in enforcing IFRS, the current manner of handling these items—via an Interpretations Committee “rejections” statement—brings with it drawbacks in terms of official status, information content, and so forth, that make the issuance of rejection statements worthy of revisiting.

Further, when the Committee rejects submissions on the grounds that appropriate guidance is already available in the standards, we believe it is important that a detailed rationale, including explicit reference to the relevant paragraphs of the standards (and, if appropriate, the related Basis for Conclusions) is included in the wording for rejection.

Questions 7-10 - Operating Procedures of the Interpretations Committee

The frequency of meetings seems to be sufficient when taking into account the number of submissions received. However, flexibility is needed in this area, and if the number of requests received were to increase or decrease significantly, we would expect the Committee to adapt the length or the frequency of the meetings.

We believe that the quality of publicly available material is good overall. Although we realize that confidentiality might be important for some constituents participating in the outreach activities, we believe that it would be valuable to provide the Committee with more background information about these outreach activities performed on their behalf by the staff. More transparency would allow the Committee to assess whether appropriate outreach activities have been undertaken. This could for example be achieved by giving a better description of whether the staff has consulted with the full range of constituents such as enforcers and regulators, national standard setters, industry organizations, audit firms, etc... or with only certain groups. We believe such improvements might help avoid situations where issues are sometimes taken to the agenda despite the fact that the issue is not widespread, or at the other end of the spectrum, where the Committee allocates a lot of its time to a project which eventually proves to be too ambitious for an interpretation (see recent examples such as the definitions in IFRS 2).

On a specific matter for which the Committee receives a request, it is often important to know whether all audit firms have expressed views or only some of them. The fact that an issue is not addressed in the publication of one of the Big 4 does not mean that this firm agrees with the view expressed by the other firms. Therefore, based only on audit firms' publications it would not always be appropriate to reach a conclusion that diversity in practice does not exist. In some cases, publications from the big firms will not address an issue because it is deemed too specific to a geographical area, which in itself may not mean that the issue is sufficiently narrow for the Committee to reach the conclusion that the request should be rejected. In these situations, the staff should confirm the reason for the omissions with the



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firms. Moreover, we would urge greater transparency regarding the Committee's prioritization process for discussing and handling requests for guidance. For example, it would be useful if the Committee were to publish the requests early on (with identifying information omitted) together with the expected schedule for discussion.

We also believe improvements could be made in the quality of the Committee's discussions of an issue if the Committee members consistently first discussed and came to a common understanding of the economics, business purpose and corresponding prevalence of the transaction(s) that give rise to the request. The staff could facilitate this by including in the early part of the agenda papers what they have become aware of in this regard.

We believe there is room for improvement regarding the quality of exchanges during the meetings. We believe that enough time should be given to Committee members in order to improve the awareness of all members to specific issues they may not have experienced. The time schedule of the meetings should be built so as to foster such an exchange as it sometimes seems as if time runs short for this. Similarly, the Chair should encourage contributions from members that have expertise or experience relative to the matter discussed regardless of whether those members initiate comments. We believe that the expertise of the Committee's members is very valuable, and could be utilized more fully.

As regards the participation of Board members in the Committee's meeting, we fully support the IASB's involvement in the meetings. In our view, such an involvement will provide the Board at large with a better understanding of the application issues that users of IFRS are faced with. We would therefore encourage a high level attendance and involvement from Board members in the Committee's meetings. We note that during recent meetings there has been a higher level of attendance by Board members, and we encourage that. In the past, due to the high priority IASB projects, there have been meetings with no attendance by Board members. Though we understand the reasons for this situation given the circumstances that prevailed at the time, we do not think that such a situation is desirable.

Questions 11-12 – Agenda Criteria

In addition to the comments made above on the importance of interpreting the application of IFRS and providing guidance to help preparers, auditors and regulators apply the standards, we also feel that the Committee should consider issues which arguably might be suited for a future IASB project if there is no definite future project mentioned in the Board's work plan. We believe that the issuance of interpretations and guidance should be postponed because of an IASB project only if the project is scheduled in the work plan and its anticipated completion is in the near term.

We are also concerned with the use of the term "consensus" in the agenda criterion of "(e) It is probable that the Committee will be able to reach a consensus on the issue on a timely basis." The term "consensus" is not sufficiently clear, as it can be interpreted to mean a view shared by all members, or a view arrived at by most of the members. We are unclear whether the agenda criterion is intended to



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result in items being added to the agenda only if it is believed that 1) all members will be able to come to agreement or 2) most members will be able to come to an agreement. Given the diverging views held by large audit firms on various issues, this lack of clarity as to what is meant by consensus creates the risk that an issue will not be added to the agenda. We recommend that an item should be added to the agenda when it is probable that the requisite number of members of the Committee will be able to reach a decision on a timely basis.

Lastly, it is not always clear to us when an issue should be clarified via an amendment through the annual improvements process, through the issuance of a stand-alone amendment to a standard or through an interpretation.

Questions 13-17 – Outputs from the Committee

As regards the Committee’s output, in order to ensure the quality of the agenda decisions taken (especially when requests received are rejected), the Committee should in our view:

- Use explicit and clear references to the provisions in the standards and interpretations. From an enforcer’s point of view, such references help us ensure that practice is aligned with the Committee’s technical analysis.
- Avoid references to future IASB projects when the prospects of issuance of the final outcome are either too uncertain or too delayed.

We believe that adherence to these two requirements would usefully contribute to an improvement of the Committee’s output.

Based on our experience, a 30-day period for commenting on tentative agenda decisions often does not provide sufficient time to allow constituents to appropriately analyze the potential consequences of these tentative decisions. In our view, an extension from the current 30 days to 45 days would help stakeholders improve the quality of their feedback to the Committee.

Question 21 - Leadership

It is very difficult to express a judgment on whether the discussions are at the appropriate level of detail or focus on the right issues. In many cases this will be the case, in others it may not be. Overall, we believe that those two aspects are dealt with appropriately.

The quality of the Committee’s output also comes from the exchange of ideas and experience between members. As regards to the effectiveness of the deliberations, as mentioned above, we therefore believe the Chair should grant members more time to understand the issues. Further, though we understand that the Chair is responsible for managing the time schedule and therefore often has to take decisions on



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whether a deliberation should continue or not, we think that it is also important that all technical opinions can be expressed.

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information, please do not hesitate to contact me at + 202-551-5344.

Sincerely,

Julie A. Erhardt
Chairman
IOSCO Standing Committee No. 1
International Organization of Securities Commissions