

IFRS Foundation  
To the Trustees  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

[interpretations-comm@ifrs.org](mailto:interpretations-comm@ifrs.org)

23 February 2011

Dear Sir

**Re: Review of the operational efficiency and effectiveness of the IFRS Interpretations Committee ('the Committee')**

On behalf of the Supervisory Board of the European Financial Reporting Advisory Group (EFRAG), I am writing in response to a request from the IFRS Foundation Trustees ('the Trustees') to respond to a questionnaire that provides for a performance evaluation of the efficiency and effectiveness of the IFRS Interpretations Committee ('Interpretations Committee'). The purpose is to comment on whether the Committee meets its objectives and to offer suggestions to improve its operations.

EFRAG appreciates the opportunity to comment on the Committee's operational effectiveness. We have decided to comment primarily on the areas that concern us, and which, we believe, could benefit from further improvement.

Firstly, we would like to thank the Trustees and the Committee for the efforts made over the years to improve the operational effectiveness and transparent manner in which the Committee presently operates. Furthermore, we appreciate the Committee's commitment to avoid developing detailed guidance in response to the various requests it receives, and therefore safeguarding a principles-based approach. However, despite the improvements already made, we think that the Committee's role and consultation process could benefit from further enhancements. Given the increase in new standards and the number of constituencies that will adopt IFRS in the coming years, we foresee the Committee's role becoming increasingly important.

We noted that the IFRS Foundation is conducting two other reviews almost in parallel – i.e. on the Annual Improvements Process and the Strategy Review. Whilst we acknowledge that these are separate reviews, in many ways, in our view, they are related and we question why the three reviews have not been combined to achieve an overall assessment.

Our detailed comments are provided in the appendix to this letter. Below we have summarised our more significant concerns and suggestions for improvement:

- (a) As previously noted in our response to the review on the Annual Improvements Process (our letter dated 6 December 2010), EFRAG considers that the distinction between an Annual Improvement amendment – which changes a standard – and an Interpretation, is very important. In our letter responding to

the Annual Improvements process, we explained that neither the Annual Improvements amendments nor Interpretations should make changes to the existing principles; only major revisions to standards should introduce new principles.

- (b) One of our most significant concerns is the quality of the assessment of some of the issues submitted to the Committee. As discussed in the section on 'agenda criteria', we believe that the Committee is not always applying the criteria in an appropriate manner. We are primarily concerned with the way the Committee interprets and eventually concludes on whether an issue is 'widespread' and/or 'significantly divergent' in practice.
- (c) We are concerned that some of the Interpretations issued by the Committee are based on tentative decisions taken by the IASB in projects which include changes in principles from the existing guidance. As indicated above, interpretations cannot change principles. And obviously these tentative decisions are not themselves authoritative IFRS literature from the IASB and it is uncertain whether such decisions will become part of the final standards concerned..
- (d) In our view, some wordings for rejection used by the Committee in its publication of the 'IFRIC Update' to explain agenda rejections are in some cases in effect themselves interpretations. Rejection notices should not be written as though they were authoritative guidance and should not result in a change in accounting practice, as they are not subject to a full due process, and also not subject to an endorsement process in the European Union.
- (e) We believe that a 30-day comment period for tentative agenda decisions does not always provide sufficient time to allow constituents to appropriately analyse the issues, respect their own due process and respond to the Committee in a timely manner.

If you would like further clarification of the points raised in this letter, please do not hesitate to contact Isabel Batista or me.

Yours sincerely,



Pedro Solbes

**EFRAG Supervisory Board Chairman**

## APPENDIX 1

### EFRAG's responses to the IFRS Interpretations Committee Review

#### 1. Objectives and Scope of Activities of the Interpretations Committee

*Comments have been requested in relation to the following:*

|    |  |
|----|--|
| 1. | <i>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.</i> |
| 2. | <i>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.</i>                                    |
| 3. | <i>The Committee's activities appropriately reflect its objectives.</i>  |
| 4. | <i>The Committee's experience and expertise are being efficiently and fully utilised by the IASB.</i>  |

#### EFRAG's response

- 2 EFRAG supports the Committee's stated objectives and scope of activities. We would also like to take this opportunity to commend the Committee for the improvements it has made to its operational framework including its agenda setting mechanism and the consultation process it undertakes.
- 3 In addition, we believe the Committee has demonstrated its commitment to avoid developing detailed guidance in response to the various requests it receives, and is therefore safeguarding the principles-based approach on which IASB standards are based.
- 4 Given the increase in new and revised standards and the number of constituencies that will adopt IFRS in the coming years, we foresee the Committee's role becoming increasingly important.
- 5 We believe the role of National Standard Setters (NSS) becomes increasingly important to help the Committee appropriately assess whether the issues meet the Committee's agenda criteria. Some NSS have informed us that liaison with NSS is not pursued in a consistent manner, and that the Committee does not consult with NSS on all the requests it receives in order to obtain a better understanding of local country issues. This is further addressed in our comments in section 3 of this letter.

#### Significant issues with widespread implications that result from potential conflicts in existing IFRSs

- 6 We believe that the Committee is sometimes confronted with the difficult task of assessing whether diversity in practice results from unclear guidance in IFRSs or from a potential conflict in one or more IFRSs.
- 7 An example is the amended IAS 27 *Separate and Consolidated Financial Statements* issued in 2008, which has raised several uncertainties about the accounting for transactions that involve a reporting entity and the Non-controlling Interests (NCI) of the reporting group entity. A key issue is the

potential inconsistency between the relevant guidance under IAS 27 and other standards.

- 8 It is clear that the Committee's mandate does not permit it to propose guidance that conflicts with existing IFRSs, and neither can it reach a consensus that changes or conflicts with IFRSs or the Framework. As a result, such 'perceived conflicts' cannot be resolved by the Committee. However, this does not mean that the Committee should not be allowed to undertake some initial work on identifying the issues and develop directional input on how they might be resolved, and pass this on with possible recommendations to the IASB.

However, we acknowledge that it is necessary to decide which issues require urgent attention, to ensure efficient use of the Committee agenda time.

#### *Other matters*

##### Annual Improvements to IFRSs versus an Interpretation

- 9 On more than one occasion, EFRAG has expressed its concerns on the due process of the Annual Improvements Process (AIP), and in particular the criteria to be considered. In the past, we recommended the Committee to develop some explicit limitations on the issues to be addressed through the AIP.
- 10 We acknowledge that the Trustees are in the process of reconsidering the Criteria for Annual Improvements to IFRSs and have requested comments from constituents by 30 November 2010. We refer to our letter dated 6 December 2010 in which we respond to this request.
- 11 However, it is not always clear to us when an issue ought to be clarified via an amendment through the AIP, the issuance of a stand-alone amendment to a standard or through interpretative guidance. It is also not always clear to us how the Committee determines whether an issue might be resolved through an existing or a future IASB project, in which case the criteria for either an AIP project or an Interpretation would not be met. We discuss this matter further in the section that responds to the Committee agenda criteria.
- 12 As previously noted in our response to the review on the AIP (our letter dated 6 December 2010), EFRAG considers the distinction between an Annual Improvement amendment – which changes an existing Standard – and an Interpretation, to be very important. In our letter responding to the AIP, we explained that neither the Annual Improvements amendments nor Interpretations should make changes to the existing principles; only major revisions to IFRSs should introduce new principles.
- 13 We hope that the changes put forward to the IFRS Foundation on the Annual Improvements Process will define the boundaries of what constitutes an "amendment" to an IASB standard and an Interpretation.

##### Public consultation

- 14 The Constitution provides for the review of Committee's mandate and operations at least every five years. We support the efforts made by the Trustee's to ensure that such reviews are carried out in an effective and proactive manner by using a public consultation stage.

- 15 Although we appreciate the benefits of performing a consultation in an open fashion, we think that an alternative approach might be to set out some initial suggestions for improvement, and gather views from constituents on those suggestions. This might stimulate the debate further and encourage constituents to comment on the suggestions already set out.

Interpretation of converged standards

- 16 As many of the IFRS to be issued by June 2011 will be converged with US GAAP, it should be considered whether some formal agreement may need to be reached regarding how, and by whom, these converged standards will be interpreted. This may also trigger questions how the Committee will be able to continue to best serve principle based standards if the current practice in the United States of dealing with urgent issues were to continue once standards are converged (EITF's).

Consequential Amendments to the IFRIC Due Process Handbook

- 17 We note that some changes were made to the Constitution after January 2007 in relation to the Committee composition. However, these changes summarised below, have not been reflected in the IFRIC Due Process Handbook approved by the Trustees in January 2007.

- (a) Membership – per paragraph 39 of the Constitution the Committee has fourteen voting members. [Previously twelve voting members.]
- (b) Meetings and voting – per paragraph 41 of the Constitution the Committee needs ten voting members present in person. [Previously nine voting members.]
- (c) Development of a draft Interpretation – per paragraph 42 of the Constitution approval of a draft or a final Interpretation shall require that not more than four voting members vote against the draft or final Interpretation. [Previously three voting members.]

**2. Membership**

*Comments have been requested in relation to the following:*

|    |   |
|----|---|
| 5. | <i>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.</i> |
| 6. | <i>The size of the Committee is appropriate to achieve diversity of experience and background without being too large.</i>  |

**EFRAG's response**

*Size of the Committee and geographical balance of its membership*

- 18 Since 2007, the Committee's membership has increased from twelve to fourteen voting members. We would like to reiterate that we believe it is essential that the Committee membership represents the widest possible range of stakeholders and is also geographically balanced. We think that the Committee membership achieves this well.
- 19 Designated IASB members are encouraged to attend the Committee meetings and provide their perspectives on the issues being discussed. We support the

IASB's involvement with the Committee meetings and encourage further participation if the issues are complex and have widespread implications.

- 20 We believe that it is very important for the Committee to be in close contact with the world at large, and notably users, in order not to overlook the practicalities and implications of their proposals. We are therefore of the opinion that the Committee should improve its liaison with users.
- 21 Finally, we encourage the Trustees to ensure that the composition of the Committee membership comprises IFRS experts who apply IFRS on an on-going basis.

### 3. Operating Procedures

*Comments have been requested in relation to the following:*

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

#### EFRAG's response

- 22 First, we fully support that all significant meetings of the Committee are held in public. In our view, this helps to create the transparency essential to the standard making process.

#### *Frequency and length of meetings*

- 23 We note that in the past the Committee would meet for three days six times each year. It then changed its meeting days to roughly one-two days, six times per year, which in our view works fairly well, but is dependent on the number of requests the Committee receives.
- 24 In our view, when there is a significant change in the accounting framework and its requirements - as will be the case with IFRSs in the coming years - the accounting principles that underlie those changes are often challenged once they are put to the test and implemented in practice, which sometimes result in diversity in their application. Given the number of concerns expressed on the IASB's recently developed proposals, we fear that the Committee might in the

future, be faced with numerous requests, should the IASB push ahead with the proposals. We would strongly advise the IASB to take the necessary time to make the standards robust enough (through field testing and effect assessments prior to issuing a standard) to avoid too many requests being submitted to the Committee.

- 25 In addition, there will be new countries that will adopt IFRS, who like existing countries applying IFRS, will be referring to the Committee for advice. New adopters of IFRS, such as previously the case with Europe, will need to learn how to use principle-based standards. With this in mind, we are concerned that the current Committee agenda time might be insufficient to deal with the potential volume of submissions in a comprehensive way, yet remaining firm on their policy of no supplementary guidance.

#### *Comprehensive assessment of the issues submitted*

- 26 One of our most significant concerns is the quality of the assessment of some of the issues submitted to the Committee. As discussed below in the section on 'agenda criteria', we believe that the Committee is not always applying the criteria in an appropriate way, and we question whether this might be as a result of insufficient Committee time or other factors (or both).

#### *Acknowledgements of requests for interpretations and transparency of requests*

- 27 It is important that those submitting requests for interpretations receive a proper acknowledgement that their request has been received, together with an indication of the expected time it would take to decide whether or not the issue will be included on the agenda.
- 28 We also believe that the geographical source of the requests submitted to the Committee should be made public, to allow constituents to better understand whether the issue should or should not be added to the Committee's agenda. We believe that in some cases, the issues have a very narrow scope, and therefore might not meet the agenda criterion of being "widespread". We refer also to our comments in respect to the Committee's agenda criteria.

#### *Liaison with National Standard Setters, Regulators and Enforcement bodies*

- 29 As previously explained, we believe the role of NSS is important to assist the Committee with various aspects its work; one important example is with identifying whether the issues meet the agenda criteria.
- 30 Furthermore, we note that paragraph 50 of the Due Process Handbook indicates that IASB staff maintain liaison with National Standard Setters and national interpretative groups to identify interpretative issues that the IFRIC might need to consider. Our Consultative Forum of Standard Setters has brought to our attention that this mechanism is in fact not operating properly. Indeed delays for response requested by Committee staff are so short that they have no chance of being met by NSS. If the Interpretation Committee is interested in NSS input, longer delays for response need to be granted.
- 31 Finally, we believe that the Committee would benefit from regular interaction with Regulators (including Enforcement bodies) in addition to National Standard Setters.

## 4. Agenda Criteria

*Comments have been requested in relation to the following:*

|     |   |
|-----|---|
| 11. | <i>The Criteria for the Committee's interpretative agenda are appropriate and adequate.</i> |
| 12. | <i>The Agenda Criteria are applied appropriately and consistently.</i>                      |

### **EFRAG's response**

- 32 Broadly speaking, we agree that the criteria for the Committee's interpretative agenda are appropriate and adequate. However, as mentioned below we have some significant concerns about whether the criteria are being applied appropriately and consistently in all cases.

#### *Basis of the Interpretative guidance*

- 33 We acknowledge that it is not easy to decide whether an issue is so urgent that it requires the Committee to develop guidance, particularly if the IASB has a project on its agenda that will potentially address the issue. However, notwithstanding this judgement call, we are concerned that the Committee has developed a practice that 'borrows ideas' from the IASB, and to include these in its interpretative guidance.

- 34 We note that some of the Interpretations issued by the Committee are based on tentative decisions taken by the IASB, which are not authoritative IFRS literature. We believe such practice to be inappropriate. An example is the issuance of IFRIC 15 *Agreements for the Construction of Real Estate* which is based on the notion of continuous transfer of control, a concept borrowed from the IASB when they were developing a complete new model for accounting for revenue recognition, now widely acknowledged as inappropriate in many cases and it is uncertain whether this concept will become part of the final standard.

#### *Agenda criteria - comprehensive assessment of the issues submitted*

##### 'Widespread' and has practical relevance

- 35 Our first concern relates to the interpretation of the wording 'widespread and has practical relevance'. In our view, there have been instances where an issue was considered by the Committee to be widespread, but only in one (or very few) countries, leading to a Committee conclusion that the issue does not meet the interpretative agenda criteria. Sometimes it is not clear to us whether the Committee has taken the time to collect the necessary evidence to establish the extent of the problem under consideration.
- 36 In our view, assessing whether an issue is 'widespread' and has 'practical relevance' requires a reasonable degree of research and discussion with practitioners of financial statements. We believe that, similar to the development of a standard, it is important to study the effects of an issue to be able to clearly determine whether there is something that needs to be resolved. Although we acknowledge that some of this work is carried out by the IASB staff when developing the respective agenda paper(s) on the issues, we think that in some cases, careful consideration is required by the Committee members in relation to collecting the necessary evidence, before taking a final decision.



- 37 We believe that the Committee should develop a set of more explicit and 'effect-driven' criteria about when an issue is 'widespread' and whether it has 'practical relevance' and if so why.

Significantly divergent interpretations

- 38 A second concern relates to the assessment about whether an issue does in fact create significant divergent interpretations in practice. A strict interpretation of 'significantly divergent interpretations' can lead to the Committee to decide that the existing standards are sufficiently clear and conclude that the issue does not meet the interpretative agenda criteria.
- 39 We note that on some of the issues submitted to the Committee during the course of 2010, some constituents strongly disagreed with the Committee's draft agenda decision(s) and the reasons given, not to add the issue(s) to its agenda.
- 40 An example is the tentative decision taken by the Committee in March 2010 on the recognition of deferred tax assets (DTA) for unrealised losses on available-for-sale (AFS) debt securities. A number of constituents disagreed with the Committee's initial assessment of the issue, and argued that there was significant diversity in practice due to lack of guidance in IAS 12 *Income Taxes* and that the issue was of great relevance to the insurance industry and companies holding AFS debt securities. Given the number of concerns expressed in the comment letters, the Committee concluded that the issue should be investigated further.
- 41 Again, in our view, the Committee should develop some explicit criteria about when an issue results in 'significantly divergent interpretations'.

Resolving an issue on a timely manner

- 42 We do not believe that not being able to reach a consensus on an issue on a timely basis is an appropriate agenda criterion. If there are different views on an issue, the Committee should at least indicate what the views are and clearly point out that or whether they are all valid. It should not be up to constituents to carry out this review.
- 43 This needs also to be seen in combination with the agenda criterion of the IASB not having an active project. We believe that topics relating to IASB projects should only not be added to the Committee agenda, if it is clear that the respective IASB project will be finalised within a reasonable timeline. If the project is delayed and there is uncertainty as to when it may be finished or there the expected finalisation date leaves to long period during which IFRS financial reporting is potentially left with a significant defect the Committee should address the issue despite of having an active project on the issue.

**5. Outputs from the Committee**

44 *Comments have been requested in relation to the following:*

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|-----|---|
| 13. | <i>The Interpretations issued and Annual Improvements proposed meet the needs of the IASB and the IFRS Foundation.</i>      |
| 14. | <i>The Interpretations issued are effective (their number, frequency and content) in meeting the needs of constituents.</i> |

|     |  |
|-----|--|
| 15. | <i>The Annual Improvements issued are effective (their number, frequency and content) in meeting the needs of constituents.</i>  |
| 16. | <i>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:</i> |
|     | <i>(a) the Committee believes the Standards provide sufficient guidance</i>  |
|     | <i>(b) the Committee is unable to reach a consensus</i>  |
| 17. | <i>The consultative due process for agenda decisions is appropriate and sufficient.</i>  |

### **EFRAG's response**

#### *Comment period for finalising agenda decisions*

- 45 In order to improve the transparency of its agenda decisions, the Committee publishes an explanation of its rationale for not taking an issue on to its agenda, allowing for the public to submit comments on the draft within a 30 day period.
- 46 In EFRAG's view, the 30 day consultation period for the Committee's tentative agenda decisions is very limited, in particular if the issues in question are significant and complex. We believe that a 30 day period is not always sufficient to allow constituents to appropriately analyse the issues, respect their own due process and meet the Committee deadline.

#### *Wordings for rejection on tentative or final agenda decisions*

- 47 In our view, some wordings for rejection used by the Committee in its publication of the 'IFRIC Update' to explain agenda rejections are, in some cases, regarded as interpretations. Rejection notices should not be written as though they were authoritative guidance and should not result in a change in accounting practice, as they are not subject to a full due process, and also not subject to an endorsement process in the EU.
- 48 When developing interpretative guidance, the Committee needs to ensure that the proposed guidance does not conflict with existing IFRS and it is not allowed to reach a consensus that changes or conflicts with IFRS or the Framework. We believe that this requirement should also apply to rejection wording. Below we provide two examples of recent situations where we (and others) believe the Committee rejections were worded inappropriately when published in the IFRIC Update:
- (a) In our comment letter (13 October 2010) on the 'NCI-put' issue (tentative agenda decision published in the July IFRIC Update), we stated that we believed it is inappropriate for the Committee to include interpretations (or use language that can be understood as a partial interpretation of existing IFRS) – with potential widespread consequences – in the wording for rejection on complex (and in this particular case) long-running issues. Most constituents (including EFRAG) disagreed with the published tentative rejection notice and asked the Committee to amend the wording, which the Committee subsequently did.

- (b) A second example is the issue (discussed in September 2010) that addressed the calculation of value in use under IAS 36 *Impairment of Assets*. The Committee decided not to add the issue to its agenda. However, it drafted its tentative rejection notice in a way that made it appear to prohibit the use of a dividend-based discounted model for impairment assessment in the consolidated accounts, regardless of whether the model in question is compliant with the requirements set out in IAS 36. A numbers of constituents disagreed with the tentative wording and argued that rejection wordings should not change existing practice. After due consideration of the comments received, the wording was amended.

#### *Effective dates of IFRS's*

- 49 We note that the effective dates of Interpretations generally apply to periods beginning on or after a specified effective date, normally three months on or after the date of issue by the IASB. This period is significantly shorter than for IFRS. However, the timeline for the EU endorsement process is generally the same for an IFRS and an Interpretation. A consequence is that many Interpretations are adopted by the EU after the effective date set by the respective Interpretation, which leads to unnecessary complications for preparers and users of financial statements. We encourage the Trustees to consider how this matter could be addressed.

## **6. Communications**

- 50 *Comments have been requested in relation to the following:*

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

#### **EFRAG's response**

- 51 We appreciate the Committee's outputs – IFRIC Update and post-meeting podcast – and believe these are optimal and effective for their purpose and are issued on a timely basis. We have no further comments or suggestions to make in this respect.

## **7. Leadership**

- 52 *Comments have been requested in relation to the following;*

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

#### **EFRAG's response**

53 EFRAG has no specific observations to note in respect of the leadership of the Committee.

## 8. Interaction with the IASB

54 *Comments have been requested in relation to the following:*

|     |  |
|-----|--|
| 22. | <i>The Committee interfaces effectively with the IASB</i>                                    |
| 23. | <i>The IASB responds effectively to the IFRS Interpretations Committee's recommendations</i> |

### EFRAG's response

55 We believe that it is important that an effective interface be maintained between the Committee and the IASB. In our view, an improvement in the co-ordination between the two bodies will help address the various concerns with establishing which issues should be addressed by amending a standard and which are more akin to being an Interpretation of an existing IFRS.

56 We think it might also address concerns about the time spent by the Committee debating complex issues (for example Sharebased Payments discussed in 2010), which in the end might be best resolved through an amendment to an existing IFRS.

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

57 EFRAG supports the Committee's stated objective and the activities it undertakes to help the IASB improve the quality of financial reporting.

58 We believe that it is essential that the Committee membership represents all stakeholders and is geographically balanced. We believe that the Committee achieves this well.

59 We appreciate that all significant meetings of the Committee are held in public. In our view, this increases transparency essential to the standard making process.

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

60 We note that some of the Interpretations issued by the Committee are based on tentative decisions taken by the IASB, which, are not themselves authoritative IFRS literature. Interpretations cannot change principles. Obviously these tentative decisions are not themselves authoritative IFRS literature from the IASB and it is uncertain whether such decisions will become part of the final standards concerned.

61 One of our most significant concerns is the quality of the assessment of some of the issues submitted to the Committee. As discussed in the section on 'agenda criteria', we believe that the Committee is not always applying the criteria in an appropriate way. We are primarily concerned with the way the Committee interprets and eventually concludes whether an issue is 'widespread' and/or 'significantly divergent' in practice.

- 62 In our view, some wordings for rejection used by the Committee in its publication of the 'IFRIC Update' to explain agenda rejections are in some cases, in effect, themselves interpretations. Rejection notices should not be written as though they were authoritative guidance and should not result in a change in accounting practice, as they are not subject to a full due process, and also not subject to an endorsement process in the EU.
- 63 The distinction between an Annual Improvement amendment – which changes an existing IFRS and an Interpretation, is very important. Neither the Annual Improvements amendments nor Interpretations should make changes to the existing principles; only major revisions to standards should introduce new principles.
- 64 We believe that a 30 day comment period for tentative agenda decisions is not always sufficient time to allow constituents to appropriately analyse the issues, respect their own due process and respond to the Committee on due date.

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

- 65 We support the efforts made by the Trustees to ensure that reviews like the current one are made using a public consultation stage and appreciate the open fashion manner in which it seeks comments. However, we think that an alternative approach would be to for the Trustees to develop some initial suggestions for improvement, and gather views on those suggestions. This might stimulate the debate further and encourage constituents to comment more willingly on the suggestions set out.