

**IFRS Foundation
To the Trustees**

**30 Cannon Street
LONDON EC4M 6XH
United Kingdom**

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

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as by enhancing investor protection.

ESMA has considered, through its Standing Committee on Corporate Reporting, the Trustees' *Review of the operational efficiency and effectiveness of the IFRS Interpretations Committee*.

We thank you for this opportunity to contribute to the Trustees' work, and are pleased to provide you with the following comments. In doing so, we opted not to use the ratings suggested in the consultation paper but to provide you with our main concerns in writing.

ESMA appreciates the Trustees' efforts to improve the efficiency and effectiveness of the IFRS Interpretations Committee. The increasing number of jurisdictions applying IFRSs might result in more issues being brought to the Committee's attention which in turn may lead to an increase in the importance of the Committee's activities.

We believe that it would be useful if the Trustees could clarify what steps they might take following on from the consultation paper. It is unclear whether or not the Trustees envisage amending the Interpretations Committee's due process, how feedback will be organised to the Committee and whether further outreach activities with stakeholders, Committee members or the IFRS Advisory Council are planned.

Significant efforts have been made over the years to improve the operations of the Committee. However, we believe that the operational effectiveness and transparency of the Committee could be improved further and have set out some concerns in the appendix to this letter. We particularly share the concern of some

constituents that a 30-day comment period for tentative agenda decisions often does not provide sufficient time to allow constituents to appropriately analyse the issues. We would suggest extending this comment period.

In addition to these more operational concerns, we would encourage the Trustees to achieve a more diverse composition of the Committee and to improve the independence of its members, especially in respect of audit firms. With that objective in mind we would welcome increased participation of enforcers of IFRS other than the International Organization of Securities Commissions (IOSCO) in the meetings. In this respect we would like to highlight that ESMA has extensive experience with enforcement of IFRS through its European Enforcers Coordination Sessions (EECS).

Our detailed comments on the Trustees' Review are set out in the appendix to this letter.

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,



Carlos Tavares
Vice-Chairman of ESMA

APPENDIX – ESMA’s detailed comments to the Questions in the Trustees’ Review of the operational efficiency and effectiveness of the IFRS Interpretations Committee

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

Guidance is important for enforcers as they often face difficulties in enforcing IFRSs due to a lack of guidance. We believe that providing interpretative guidance is or rather should be one of the key objectives of the Interpretations Committee: an objective which it has, unfortunately, not always achieved.

We note that the Committee rejects many requests for guidance stating that the only appropriate response to those requests would be the publication of application guidance which the Committee believes to be outside its remit. Similarly, the Committee feels often that it would not be able to reach a decision within an appropriate timescale. Submitting issues to the Interpretations Committee is often indicative of weaknesses in the implementation guidance provided in the standards or of diverging views among audit firms. In addition, submissions could be a sign that market participants need clarification. Consequently, we believe that the Committee should give more consideration to those submissions.

We can easily understand that the Committee sometimes comes to the conclusion that appropriate guidance is already available in the standards. We however believe that it is important in such cases to set out a detailed rationale for coming to this conclusion together with explicit reference to the relevant paragraphs of the standards.

Equally we understand that an issue should be referred to the IASB in cases where the Board has a broader project on the topic on its active agenda. However, we believe that there is often a need for immediate guidance and that an issue should only be referred to the Board if the Board can act swiftly on the referral (i.e. if the project is already on the Board’s active work plan and scheduled to be finalised within a reasonable timeframe).

Questions 7-10 - Operating Procedures of the Interpretations Committee

ESMA believes that the frequency of meetings should depend on the number of submissions received but that it could be useful to set a minimum number of meetings the Committee should have per year (these could then be cancelled if subsequently there are not sufficient agenda items).

Although we realise that confidentiality is important for constituents participating in some outreach activities, we believe that it would be valuable to provide at least the members of the Committee with more background information about such outreach activities. Transparency should not only be done but also

seen to be done. More transparency would allow a better assessment of whether or not appropriate outreach activities have taken place. This could for example be done by giving a better description of the extent and nature of liaison with enforcers, regulators, national standard-setters, industry organisations, audit firms etc.

The activities of the Interpretations Committee provide a good basis for understanding the issues that the users of IFRS are facing. In order to develop mutual exchanges of experiences we are of the opinion that a clear link between the IASB and the activities of the Interpretations Committee should be achieved (not only through the chair of the Interpretations Committee but also through participation of Board members).

Questions 11-12 – Agenda Criteria

The Committee's due process provides criteria against which agenda items should be considered. One of these criteria is that "it is probable that the Interpretations Committee will be able to reach a consensus on the issue on a timely basis".

Based on the Committee's current practice it is not clear whether this agenda criterion is intended to result in items being added to the agenda only if it is believed beforehand that there will be consensus among all members. Given the diverging views held by large audit firms on various issues, the 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 a majority of the Committee will be able to reach a decision on a timely basis.

As set out above we believe that it would be valuable to provide at least the members of the Committee with more background information about outreach activities. This is for example the case when the Committee assesses whether a problem is widespread and whether divergent practices exist. More transparency would allow a better assessment of whether or not appropriate outreach activities have taken place. Increased transparency might avoid situations where issues are sometimes taken to the agenda despite the fact that the issue is neither widespread nor an emerging issue that risks becoming widespread in the shorter term or, at the other end of the spectrum, situations where an item taken onto the agenda and to which the Committee allocates a lot of its time, eventually proves to be too ambitious for an interpretation (for example the recent issue of definitions in IFRS 2 – *Share-Based Payments*).

Lastly, we hope that the Trustees recent amendments to the due process for the annual improvements project will bring more clarity on when it is appropriate for an issue raised to be dealt with through the

issuance of an interpretation, through the issuance of an exposure draft by the Board or through the issuance of an amendment during the annual improvements process.

Questions 13-17 – Outputs from the Committee

The Committee's communications are important for its relationship with its constituents. We appreciate the Committee's outputs (i.e. the IFRS Interpretations Committee update and the podcasts) but believe that there is further room for improvement and that the Committee could take example from the increased activities of the Board in this field.

In particular we believe that:

- the committee's agenda decisions should include a clear rationale (including references to the relevant paragraphs in the standards) especially when a request for guidance is rejected;
- the committee should avoid referring to future IASB projects when the timing of these projects is uncertain;
- the tentative decisions the Committee is seeking comments on should be given more prominence on the committee's website and within the IFRS Interpretations Committee Update;
- a 30-days comment period for tentative agenda decisions often does not provide sufficient time for constituents to analyse appropriately the issues concerned. We would suggest extending the comment period.

Question 21 - Leadership

We believe that the quality of the Committee's output depends on the quality and extent of the exchange of ideas and experience between its members. If more issues are brought to the attention of the Committee a balance has to be found between effectiveness on the one hand and the length and quality of the discussions on the other. However, we believe that it is important that enough time is granted for adequate consideration of all relevant technical opinions to take place.