

Mr. Tsuguoki Fujinuma and
Mr Robert Glauber, *Interim Co-Chairmen*
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

24 January 2011

Dear Mr Fujinuma and Mr Glauber

Interpretations Committee Review

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Foundation Trustees' Due Process Committee's review of the Interpretations Committee. We have completed the Questionnaire, which is attached to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 207 007 0884.

Yours sincerely,



Veronica Poole
Global Managing Director
IFRS Technical

IFRS Interpretations Committee Review

Questionnaire to be completed by all external stakeholders interested in the IFRS Interpretations Committee, including IASB members, IFRS Advisory Council member, External Observers, national standard-setters and all other interested parties.

Name: **Deloitte Touche Tohmatsu Limited**

(All responses will remain confidential.)

Background:

Please tick () the appropriate box that best describes your background:

- User
- Preparer
- Auditor
- Regulator
- Academic
- Other (please explain):

Please indicate the geographic region in which you are located by ticking () the appropriate box:

- Asia/Oceania
- Europe
- North America
- Africa
- South America
- International

IFRS Interpretations Committee Review

Purpose: To assist the Trustees of the IFRS Foundation conduct a review of the effectiveness of the IFRS Interpretations Committee as part of its monitoring of the IFRS Foundation. This questionnaire provides for a performance evaluation of the efficiency and effectiveness of the Interpretations Committee in achieving its objectives and to offer suggestions to improve its operations.

The assessment covers the accomplishments of the Committee. It is not an assessment of the performance of individual members.

Process: This questionnaire employs the following rating graduation:

1 = strongly agree; 2 = agree; 3 = agree somewhat, but needs improvement; 4 = strongly disagree

For all items rated as 3 or 4, it is very important that each such rating is supported by comments identifying the areas needing improvement and suggested improvements. However, we strongly encourage members to provide comments on all aspects of performance. We would also appreciate comment if you are uncertain, do not know the answer to the question, or feel the answer is not applicable.

Responses will be analysed by staff of the IFRS Foundation and a summary will be circulated to the Trustees. The Trustees will issue a final report in the first half of 2011 and this will be sent to all members and all respondents. It will also be placed on the Foundation's website. The Chairman will make a full report to the Interpretations Committee and time will be made available during the relevant Committee meeting for discussion of the results.

Timing: Respondents are asked to complete this form electronically and return it to interpretations-comm@ifrs.org by **31 January 2011**. Individual responses will remain confidential and will not be published.

IFRS Interpretations Committee Review

Objectives and Scope of Activities of the Interpretations Committee							
The objectives of the Committee as set out in the Constitution are.							
<ul style="list-style-type: none"> To interpret the application of IFRSs and provide timely guidance on financial reporting issues not specifically addressed in IFRSs, in the context of the IASB's Framework, and to undertake other tasks at the request of the IASB¹. The other tasks include reviewing and making recommendations to the IASB of items for inclusion in the Annual Improvements process, and review of comment letters received and making recommendations on the finalisation of those Annual Improvements. 							
#	Criteria	Rating				Uncertain/ Do not know	Not applicable
		1	2	3	4		
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.			X			
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.			X			
3.	The Committee's activities appropriately reflect its objectives			X			
4.	The Committee's experience and expertise are being efficiently and fully utilised by the IASB.					X	

¹ Paragraph 43 of the IFRS Foundation's Constitution.

IFRS Interpretations Committee Review

Comments on Objectives and Scope of Activities of the Interpretations Committee

The Objectives of the Interpretations Committee, to interpret the application of IFRSs, to provide timely guidance, and to undertake other tasks at the request of the IASB, are appropriate at a high level. However, the implementation of those objectives has become increasingly unsatisfactory.

In our comment letter of 30 November 2010 to the IFRS Foundation Trustees on the Annual Improvements Process, we observe that in our view the role and responsibilities of the Interpretations Committee are too narrow. In addition, too much of the Committee's time and staff resources are spent on deciding whether a necessary improvement to IFRSs falls into a particular 'bucket' of criteria and whether that bucket falls within the Committee's competencies, rather than providing value-added contributions to IFRSs. We concluded that this was not the most efficient use of the Interpretations Committee and its staff resources.

Consequently, we think that the IFRS Foundation Trustees need to reconsider the roles of the IASB and the Interpretations Committee and the extent to which the Interpretations Committee should be permitted to address amendments to IFRSs developed under the Annual Improvements Process, Interpretations (i.e., Developing Application Guidance), and the resolution of conflicts between IFRSs. Each represents a change in IFRSs, which ideally should be addressed by the same agenda criteria and due process, including review and approval by ballot of the Board at both exposure draft and final document stage.

The forthcoming post-implementation reviews are an activity in which the Interpretations Committee should be able to make a significant contribution. With their practical experience and first-hand knowledge of areas of difficulties and conflict, they could act as a steering group or assessment centre as issues are assessed for inclusion in any amendment project of the IFRSs affected.

In addition, the activity at the IASB and the pace of standard-setting necessitated by the Memorandum of Understanding and the G20 Agenda has unfortunately (although understandably) led to situations in which there are contradictions between IFRSs or areas in which significant implementation issues are likely to arise. While we (and other constituents) attempt to identify such contradictions at the Exposure Draft stage and bring these to the IASB's attention, the IASB often makes significant changes during re-deliberations and the time permitted for 'fatal flaw' reviews of staff drafts does not permit all potential implementation issues to be identified before an IFRS is issued. The Committee's members will often be among the first to encounter such issues in practice and will be in a position to assess the alternatives and suggest/develop solutions.

We believe these changes to the Committee's competencies would significantly enhance the IASB's ability to identify and address needed improvements to IFRSs in a timely manner. The Interpretations Committee is not used to its full potential, whereas the IASB is chronically over-stretched. There is an opportunity for the Interpretations Committee to be utilised in a manner that suits the skills present on the Committee and within the due process procedures of the IASB, to contribute in a more positive way to the standard-setting work of the IASB and increase the organisation's responsiveness to its constituents.

IFRS Interpretations Committee Review

Membership							
Committee members are appointed by the Trustees. The members of the Committee are selected so as to represent the best available combination of technical expertise and diversity of international business and market experience in the practical application of IFRSs and analysis of financial statements prepared in accordance with IFRSs.							
#	Criteria	Rating				Uncertain/ Do not know	Not applicable
		1	2	3	4		
Ratings: 1 = strongly agree; 2 = agree; 3 = agree somewhat, but needs improvement; 4 = strongly disagree							
5.	The Committee has a sufficiently broad range of collective expertise, experience and geographical balance to ensure its effective and efficient operation.		X				
6.	The size of the Committee is appropriate.		X				
Comments on Membership of the Interpretations Committee							
The geographical distribution and size of the Interpretations Committee is appropriate. However the Committee, as currently constituted, lacks expertise in financial institutions/ banking and insurance as well as users/ analysts from a jurisdiction or region in which IFRSs are the primary financial reporting language.							

IFRS Interpretations Committee Review

Operating Procedures							
The Committee generally meets six times each year for one and a half days. Meetings are open for public observation (except for administrative matters).							
	Criteria	Rating				Uncertain/ Do not know	Not applicable
		1	2	3	4		
Ratings: 1 = strongly agree; 2 = agree; 3 = agree somewhat, but needs improvement; 4 = strongly disagree							
7.	Committee meetings are efficient and effective in terms of:						
	(a) Frequency.		X				
	(b) Length.			X			
	(c) Geographical location (London).		X				
	(d) Quality of agenda material.			X			
	(e) Quantity of agenda material.		X				
	(f) Timely provision of agenda materials.		X				
8.	There is high quality participation and interaction in the discussion by Committee Members in reaching consensus						
				X			
9.	Committee meetings are productive and achieve their full potential						
					X		
10.	The Committee is optimally placed to meet the future demand of stakeholders						
						X	

IFRS Interpretations Committee Review

Comments on Operating Procedures of the Interpretations Committee

If the Committee is to achieve its objective of 'improving financial reporting through the timely identification, discussion and resolution' of IFRS reporting issues [IFRIC Due Process Handbook, I], much better use of the Committee needs to be made. Otherwise it will fail to meet the expected future demands of stakeholders.

In our view, meetings of the Interpretation Committee do not achieve their full potential. We think that this is largely because it spends too much time trying to decide whether a particular set of agenda criteria have been met, whether it is an issue that needs resolution by the IASB, or would result in Implementation Guidance and thus (it often seems to us) outside the activities of either the IASB or the Committee, rather than developing guidance that is clearly, in the views of some constituents, desirable. As such, it may not provide 'timely guidance' to constituents.

Too often, a potential agenda item is referred to the IASB 'for inclusion in the X project', because an IASB project will 'resolve the issue in a shorter period than the Interpretations Committee requires to complete its due process' [IFRIC Due Process Handbook, 24(f)]. However, there is no follow-up by the Staff in the event that the 'X' project is delayed significantly, or removed from the active agenda. This is a significant flaw. Given the current pressure on the IASB's agenda, and the candidates for the 'post-2011 agenda', this flaw has condemned many potentially useful amendments to IFRSs to obscurity for many years.

We are not advocating an indiscriminate approach to developing amendments to IFRSs, with ever-increasing levels of Committee output. What we are advocating is a more responsive, results-focused approach to using the expertise and experience on the Committee to make necessary discrete enhancements (of whatever type necessary) to IFRSs.

With respect to Question 7(a), while the current frequency of meetings is appropriate, the Interpretations Committee needs to be flexible, in particular if the implementation of the '2011 IFRSs' raises a significant level of issues for interpretation or clarification.

With respect to Question 10, in the absence of members of the Committee with backgrounds in financial institutions/banks and insurance entities, we are not certain that the Committee will 'be optimally placed to meet the future demands of stakeholders.' (See also our response to Question 5, above.)

IFRS Interpretations Committee Review

Agenda Criteria						
The criteria for the Committee to address an issue by issuing an Interpretation are as follows:						
(a) <i>The issue is widespread and has practical relevance</i>						
(b) <i>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.</i>						
(c) <i>Financial reporting would be improved through elimination of the diverse reporting methods.</i>						
(d) <i>The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.</i>						
(e) <i>It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.</i>						
(f) <i>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.</i>						
	Criteria	Rating				Not applicable
		1	2	3	4	
Ratings: 1 = strongly agree; 2 = agree; 3 = agree somewhat, but needs improvement; 4 = strongly disagree						
11.	The Criteria for the Committee's interpretative agenda are appropriate and adequate.			X		
12.	The Agenda Criteria are applied appropriately and consistently.			X		

IFRS Interpretations Committee Review

Comments on Agenda Criteria

Consistent with our comments on the Interpretation Committee's Objective, we believe that the Agenda Criteria have suffered from an increasingly unsatisfactory implementation.

The fact that an organisation has submitted an issue to the Interpretations Committee may indicate that there is divergence in practice, or that there is a danger that divergence will develop (criterion (b)). We, as auditors, frequently encounter this type of situation, i.e., we may have a preferred view on a particular fact pattern, but often need to acknowledge that other good faith readings of IFRSs can come to a different view.

Criteria (c), (d) and (f) are too often used as excuses not to add an issue to the Committee's Agenda. Potential agenda items are often referred to the IASB 'for inclusion in the X project', without full consideration whether that IASB project will 'resolve the issue in a shorter period than the Interpretations Committee requires to complete its due process' [IFRIC Due Process Handbook, 24(f)]. Given the current pressure on the IASB's agenda, and the number of candidates for the 'post-2011 agenda', this reason for referring a topic to the IASB has condemned many potentially useful amendments to IFRSs to obscurity for many years.

Consistently with our comments above, we think that the present agenda criteria have become too restrictive to enable the Committee to be responsive to stakeholders. As stated in our letter of 30 November 2010 to the IFRS Foundation Trustees, 'the inability of the Interpretations Committee to address certain types of needed improvements to IFRSs and the consequent need for the Board to get involved, places an unnecessary burden on the Board's time and staff resources by asking the IASB to address narrow, emerging, and other application issues under IFRSs, when the Interpretations Committee is likely to be best equipped for such tasks.'

We proposed that the Trustees 'broaden the remit of the Interpretations Committee such that it may develop amendments to IFRSs, including those required to clarify an IFRS or resolve conflicts within IFRSs; to make necessary corrections to IFRSs [i.e. Improvements to IFRSs]; to provide Application Guidance, including guidance on financial reporting issues not addressed specifically elsewhere in IFRSs [i.e., Interpretations]; and to develop Implementation Guidance.' This broader remit would require more active involvement by the IASB in the due process of the Committee, in particular, that formal ballots of proposed changes to IFRSs would be required at both exposure and final document stages.

In our view, these changes are necessary if the Interpretations Committee is to be an efficient part of the standard-setting process. Removing the need for the Interpretations Committee to debate the nature of a change or clarification and relieving the need for a separate Board project to address many types of urgent or emerging accounting issues, can only help IFRSs as they face the challenges of becoming *the* global financial reporting language.

IFRS Interpretations Committee Review

Outputs from the Committee						
The Committee addresses issues by:						
(a) issuing IFRIC interpretations						
(b) proposing issues to the IASB for inclusion in Annual Improvements						
(c) making recommendations for the IASB to address an issue in some other way, for example inclusion in an existing IASB project or consideration in a post-implementation review						
(d) issuing an agenda decision not to address an issue through one of the above routes. Agenda decisions for issues considered for an Interpretation are published for public comment for 30 days before being finalised.						
	Criteria	Rating				Not applicable
		1	2	3	4	Do not know
Ratings: 1 = strongly agree; 2 = agree; 3 = agree somewhat, but needs improvement; 4 = strongly disagree						
13.	The Interpretations issued and Annual Improvements proposed meet the needs of the IASB and the IFRS Foundation			X		
14.	The Interpretations issued are effective (their number, frequency and content) in meeting the needs of constituents			X		
15.	The Annual Improvements issued are effective (their number, frequency and content) in meeting the needs of constituents		X			
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			X		
	(b) the Committee is unable to reach a consensus				X	
17.	The consultative due process for agenda decisions is appropriate and sufficient			X		

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Comments on Outputs from the Committee

The Annual Improvements Process has proved relatively useful, although the IASB continues to blur the distinction between a 'targeted amendment' of an IFRS (i.e. a separate IASB-led project) and what should be included within the AIP. While we support flexibility in the agenda criteria, we do caution the IASB and the IFRS Foundation Trustees that other constituents see this lack of clarity as a flaw in the IASB's due process.

Interpretations continue to be troublesome, both in terms of identifying appropriate issues as well as developing principle-based responses to those issues taken to the Committee's Agenda. A recent example is the proposed Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine*, which, while it would be practical for some surface mines, has been criticised by others for not reflecting reality and not being practical.

This provides further credence to our concerns about the type of activity that the Committee is permitted to undertake.

On 16(b), we would encourage the Committee to explain why it is unable to reach a consensus on an issue. At present, the statement that 'the Committee is unable to reach a consensus' is unhelpful to constituents and provides no guidance about what sources within IFRSs they might use to develop an appropriate accounting treatment.

The Agenda Decisions issued by the Committee can be useful, but they must tread a delicate line between providing guidance and stating simply that the Committee will not issue an Interpretation. The Committee does occasionally consider that it is worth providing a more detailed rationale for its Agenda Decision (e.g. with the recent available-for-sale impairment issue). We continue to support issuing Agenda Decisions and the exercise of discretion as to the level of detail in those documents.

While the relatively short comment period available for draft Agenda Decisions is generally appropriate, we think that recent experience has demonstrated that some flexibility is needed to accommodate a longer comment period in certain situations. For example, we think that the Committee's draft Agenda Decisions on many of the financial instrument issues, including the put options over non-controlling interests (November 2010) would have benefitted from a longer comment period, even at the expense of missing the next available meeting of the Committee.

IFRS Interpretations Committee Review

Communications						
Criteria	Rating				Uncertain/ Do not know	Not applicable
	1	2	3	4		
Ratings: 1 = strongly agree; 2 = agree; 3 = agree somewhat, but needs improvement; 4 = strongly disagree						
18. The Committee's communications are optimal and effective (IFRIC Update and post-meeting podcast)	X					
19. When appropriate, the Committee and/or the Committee staff liaises effectively with other similar interpretations bodies and National Standard Setters.			X			
20. The Committee's activities are sufficiently transparent to stakeholders.	X					
Comments on Communications						
<p>Communications at the Interpretations Committee and at the IASB generally, are improving. We support the enhancements that have been made, including the use of podcasts and daily reporting from the meeting.</p> <p>The Committee is transparent: its meeting materials are available to constituents via www.IFRS.org, the proceedings are webcast, and there is a documented outcome via the <i>IFRIC Update</i>. In addition, the due process surrounding Agenda Decisions, draft and final Interpretations are comparable to those utilised by the IASB and are appropriate.</p> <p>We are concerned that there is little evidence of effective liaison between the Interpretations Committee staff and the staff of similar national interpretive bodies. The liaison may be taking place, but it is not especially apparent in the discussions.</p>						

IFRS Interpretations Committee Review

Leadership							
	Criteria	Rating				Uncertain/ Do not know	Not applicable
		1	2	3	4		
Ratings: 1 = strongly agree; 2 = agree; 3 = agree somewhat, but needs improvement; 4 = strongly disagree							
21.	Please rate the effectiveness of the Chair.						
	(a) Discussions are at the appropriate level of detail.						X
	(b) Discussions are focused on the right issues.						X
	(c) Issues are identified and deliberated in a timely and effective manner.						X
Comments on Leadership							
We do not think that it is appropriate for constituents to rate an individual in a questionnaire such as this. Such assessment should be made in the context of the IFRS Foundation's personnel appraisal process.							

IFRS Interpretations Committee Review

Interaction with the IASB							
The designated Board observers are (from July 2010) Philippe Danjou, Amaro Gomes, Patricia McConnell and Wei-Guo Zhang . They are encouraged primarily to listen and to provide Board Member perspectives on issues being discussed rather than participate in the debate. The Director of Implementation Activities provides an oral update to the IASB after each Interpretations Committee meeting.							
	Criteria	Rating				Uncertain/ Do not know	Not applicable
		1	2	3	4		
Ratings: 1 = strongly agree; 2 = agree; 3 = agree somewhat, but needs improvement; 4 = strongly disagree							
22.	The Committee interfaces effectively with the IASB		X				
23.	The IASB responds effectively to the IFRS Interpretations Committee's recommendations		X				
Comments on Interaction with the IASB							
The IASB members at the meetings may bring useful contributions to the debate.							
Overall evaluation							
	Criteria	Rating				Uncertain/ Do not know	Not applicable
		1	2	3	4		
Ratings: 1 = strongly agree; 2 = agree; 3 = agree somewhat, but needs improvement; 4 = strongly disagree							
24.	Overall, the Committee is achieving its stated objectives and scope of activities.			X			

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<p>Comments:</p> <p>Please list the three aspects of Committee's activities that, in your opinion, are working best.</p> <ul style="list-style-type: none">• The Committee brings together a diverse group of professionals experienced in the use and application of IFRSs in practice.• Committee members are close to current developments in IFRSs and aware of divergent views on application (to a much greater extent than IASB members or staff).• The Committee is potentially well-placed to provide a useful means to provide necessary guidance on the application of IFRSs, should the IFRS Foundation Trustees and the IASB choose to use them in this way. <p>Please list the three aspects of Committee's activities that, in your opinion, are in the most need of improvement.</p> <ul style="list-style-type: none">• The Agenda criteria need to be reviewed and the Committee's competencies extended, as suggested in responses above.• The Committee should be allowed, subject to full IASB ballot, to make discrete, targeted amendments to IFRSs: whether to the Standards, Application Guidance or Implementation Guidance.• Timeliness of the Committee's activities should be improved. <p>General comments: use this space for any general comments that you may have.</p> <p>None for this review – please see our comments dated 25 November 2009 (Appendix B) and 30 November 2010 to the IFRS Foundation Trustees.</p>
