



Interpretations and Improvements Model

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Objective

The AASB's objective is a streamlined interpretations function that interacts with the International Financial Reporting Standards Interpretations Committee (IFRSIC) to provide guidance to Australian constituents in the context of the formal adoption of International Financial Reporting Standards (IFRSs) in Australia for private sector, public sector and not-for-profit entities, while maintaining a capacity to deal with issues relating to purely domestic Standards. The interpretations function has a flexible structure so that it can be adapted in response to changing circumstances and the nature of the issues to be addressed.

Principal Features of the Model

The model has the following principal features.

- (a) The AASB deals directly with the adoption of IFRSIC Interpretations as Australian Interpretations and with IFRS improvements as amendments to Australian Accounting Standards.
- (b) The AASB considers that a unique Australian interpretation of IFRS would be warranted only in rare and exceptional circumstances. Issues relating to interpreting IFRS adopted in Australia that the AASB considers warrant further guidance are forwarded to the IFRSIC for consideration for inclusion on the IFRSIC work program or for the IFRSIC to refer to the IASB for consideration as improvements to IFRS. This may be preceded by consultation on the issues with other National Standard Setters, either in the context of a meeting of the International Forum of Accounting Standard Setters or by circulating questions about the issues via email. The purpose of this consultation is to help establish if the issues are a source of diverse accounting treatments.
- (c) In the event the AASB considers that a unique Australian interpretation is warranted, it would form an Advisory Panel, constituted as a committee of the AASB, as required on a topic-by-topic basis. The role of Panels is limited to preparing alternative views and, where appropriate, recommendations for consideration by the AASB. Each Panel would normally comprise between four and eight members, including the Chairman and at least one other AASB member. Panel members are appointed on the basis of their professional competence and practical experience in the topic area. The AASB agrees that it is important that Panels have a balanced composition to ensure that both a depth of knowledge and breadth of perspective are achieved. The AASB seeks to ensure that the perspectives represented include those of preparers, users, auditors and regulators.²
- (d) The due process includes documentation, on public record, of the composition of each Panel and the background and experience of each Panel member.

¹ Supersedes the 'Interpretations Model' of June 2006, as modified in December 2007

² A public Register of Potential Advisory Panel Members is on the AASB website. It is expected that members of Panels will be drawn from the register. However, depending on the issue to be addressed, the AASB may decide to draw Panel members from other sources to achieve an appropriate balance of expertise and experience. Inclusion on the register does not necessarily mean that a person will be appointed to a Panel.



Operation of the Model

1. Identification of Issues

The process for identifying issues includes the following features:

- (a) issue proposals are submitted by constituents;
- (b) staff (often in consultation with the proposer) develop the issue proposal for consideration by the AASB; and
- (c) the AASB assesses issue proposals against the following criteria:
 - (i) the issue is widespread and has practical relevance;
 - (ii) the issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice);
 - (iii) financial reporting would be improved through the elimination of or reduction in diverse reporting methods;
 - (iv) the issue is a narrow implementation or application issue that can be resolved efficiently within the confines of existing IFRSs or Australian Accounting Standards;
 - (v) it is probable that the IFRSIC or AASB (as relevant) would be able to reach a consensus on a timely basis or that IFRSIC would be able to refer the matter to the IASB as the basis for an improvement; and
 - (vi) if the issue relates to a current or planned IASB or AASB project, there is a pressing need to provide guidance on a more timely basis than would be expected from that project.

Agenda Decisions

The AASB structures its Agenda Decisions as follows:

- (a) if an issue proposal relates to an IFRS adopted in Australia – either:
 - (i) take no action and give reasons; or
 - (ii) refer the issue to the IFRSIC for consideration.

Decisions by the AASB in respect of all rejected issue proposals relating to IFRSs adopted in Australia are sent to the IFRSIC for information and published on the AASB's website.

Where the AASB refers an issue to the IFRSIC:

- (i) if the IFRSIC adds the issue to its work program or refers the matter to the IASB as the subject of an improvement, the AASB includes the issue on its work program in the same manner; and
- (ii) if the IFRSIC rejects the issue, the AASB assesses the reasons for its rejection and, depending on the significance of the issue in Australia and before publishing an agenda rejection statement on the AASB website, decide whether further action, if any, should be taken by the AASB. The AASB may decide to add the issue to its work program and establish an Advisory Panel. However, the AASB considers that a unique domestic interpretation of an IFRS adopted in Australia would be required only in rare and exceptional circumstances.

- (b) If the issue proposal relates to domestic requirements that impact only not-for-profit entities in the public and/or private sectors — either:
 - (i) take no action and give reasons; or
 - (ii) add the issue to the work program and, if required, establish an Advisory Panel to prepare alternative views and recommendations for consideration by the AASB.

2. Formation of Advisory Panels

An Advisory Panel for an issue will comprise the AASB Chairman, at least one other AASB member and other persons with a range of skills and experience to reflect different perspectives. In this regard the AASB is cognisant that in forming Panels care should be taken to achieve a balanced composition of members. The formation of Panels is achieved as follows:

- (a) the AASB Chairman, in conjunction with the AASB member(s) allocated to a Panel, determines the number of members, membership and the Chair of a Panel. The Chair of a Panel is the AASB Chairman or another AASB member;
- (b) membership of a Panel is determined on an issue-by-issue basis. In forming a Panel the AASB will use the Register of Potential Advisory Panel Members and, where appropriate, identify other persons to invite for appointment to the Panel.

Depending on the issue being addressed, members of a Panel are drawn from preparer and user groups, accounting firms, the accounting bodies, relevant public sector and not-for-profit organisations and academia. For example, a person drawn from an accounting body need not be its technical director or advisor. Likewise, a person from an accounting firm need not be a technical partner as the relevant expertise and experience may reside elsewhere in the firm. This approach is consistent with the objective of forming a Panel on a particular issue to marshal the best available combination of technical expertise and diversity of business and market experience while seeking to maintain a balance of views and perspectives on the issue.

This provides flexibility in accessing the skills and experience relevant to a particular issue. The AASB also considers transparency in the appointment of Panels is essential to good governance, accountability to constituents and the acceptance of the outputs from the process and the identity and affiliation of Panel members are published on the AASB's website. Records are also kept to briefly explain the skills, expertise or other reasons for appointment of each Panel member; and

- (c) Panel members will be entitled to reimbursement of reasonable out-of-pocket costs.

3. Due Process

The due process normally includes:

- (a) consideration of issue proposals by the AASB;
- (b) Proposed Agenda Decisions (including the wording of any Proposed Agenda Decisions), reasons, and issue proposals are published on the AASB's website for an appropriate period, depending on the nature of the issue, prior to AASB meetings so that constituents have adequate opportunity to participate in the process by informing the AASB within a short time period whether they support an Agenda Decision. The AASB discusses the Agenda Decisions in public and publishes its proposed action in the *AASB Action Alert* and publishes the text of the Agenda Decisions on the AASB's website;



- (c) where an Advisory Panel is formed, it considers the specific questions set by the AASB and makes recommendations to the AASB;
- (d) where the AASB proposes to issue an Interpretation, the Proposed Interpretation is published on the website for an appropriate period, depending on the nature of the issue, before the AASB meeting at which the AASB considers whether to formally approve an Interpretation;
- (e) where the AASB does not propose to act on an issue, a Proposed Agenda Decision containing the reasons for not adding the issue to the AASB's agenda, is published on the AASB's website for an appropriate period, depending on the nature of the issue, before the AASB meeting at which the AASB considers whether to formally approve an Agenda Decision;

and

- (f) the AASB considers and votes on the approval of Interpretations in public. As with the making of an Accounting Standard, the approval of an Interpretation requires nine votes in favour.

Consistent with the IASB's Statement of Best Practice: *Working Relationships between the IASB and other Accounting Standard-Setters*, the AASB liaises with the IFRSIC/IFRSIC staff on issues being addressed nationally. Although some constituents have suggested the desirability of obtaining assurance from the IFRSIC in some way, the IFRSIC has stated that it will not give assurance that a national Interpretation is either consistent or inconsistent with IFRSs.

4. IFRSIC Interpretations and Draft Interpretations

The AASB makes submissions on IFRSIC Draft Interpretations and considers IFRSIC Interpretations for adoption in Australia. As part of this process the AASB also decides whether:

- (a) a Panel should be formed to develop a draft submission on an IFRSIC Draft Interpretation for consideration by the AASB or whether a draft submission should be prepared by AASB staff; and
- (b) the AASB should deal directly with adopting an IFRSIC Interpretation in Australia or a Panel should be formed to prepare recommendations for the AASB's consideration. It is envisaged that the formation of a Panel would occur only where it may be necessary to add Australian material, for example to accommodate specific requirements in respect of not-for-profit public sector entities or to acknowledge Australian legal requirements.

5. Australian Interpretations

The AASB anticipates that from time to time guidance will be required in respect of applying domestic Standards, for example specific requirements that apply only to not-for-profit entities.

The AASB considers that the format and structure of Australian Interpretations should, to the extent feasible, mirror IFRSIC Interpretations, with a Basis for Conclusions attached.

6. Secretariat

A member of the AASB staff is responsible for coordinating the work of the AASB in relation to interpretation issues. AASB staff are also assigned to assist Panels.