



Interpretations Model

(June 2006, as modified in December 2007)

Objective

The AASB's objective is a streamlined interpretations function that interacts with the International Financial Reporting Interpretations Committee (IFRIC) 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.

The model applies from 1 January 2008.

Principal Features of the Interpretations Model

Under this Interpretations model the AASB has direct responsibility for developing and approving Interpretations. The model has the following principal features:

- (a) forming Interpretations Advisory Panels, 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 normally comprises 4-8 members, including the Chairman and at least one other AASB member. 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;
- (b) a public Register of Potential Interpretation Advisory Panel Members 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;
- (c) issues relating to interpreting Australian equivalents to IASB requirements that the AASB considers warrant further guidance are, in the first instance, forwarded to the IFRIC for consideration for inclusion on the IFRIC work program. The AASB considers that a unique domestic interpretation of Australian equivalents to IASB requirements is required only in rare and exceptional circumstances. In addition, the AASB deals directly with the adoption of IFRIC Interpretations in Australia; and
- (d) the due process includes documentation, on public record, of the composition of each Panel and the background and experience of each Panel member.



Operation of the Interpretations Model

The model operates as follows:

1. Identification of Issues

The process for identifying issues for consideration for inclusion on the work program 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 IFRIC or AASB (as relevant) will be able to reach a consensus on a timely basis; 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 Australian equivalent to IFRS* — either:
 - take no action and give reasons; or
 - refer the issue to the IFRIC for consideration for inclusion on its work program.

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



Where the AASB refers an issue to the IFRIC:

- (i) if the IFRIC adds the issue to its work program, the AASB adopts the IFRIC decisions in respect of including the issue on the IFRIC work program; and
 - (ii) if the IFRIC does not add the issue to its work program, 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 Australian equivalent to IASB requirements would be required only in rare and exceptional circumstances.
- (b) *if the issue proposal relates to domestic requirements that relate only to not-for-profit entities in the public and/or private sectors — either:*
- take no action and give reasons; or
 - add the issue to the work program and, if required, establish a Panel to prepare alternative views and recommendations for consideration by the AASB.

2. Formation of Panels

An Interpretations 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 of the views expressed in some submissions 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 Interpretation 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. However, the AASB considers transparency in the appointment of Panels is essential to good governance, accountability to constituents and the acceptance of the outputs from the process. The identity and affiliation of Panel members are published on the 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 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's *Action Alert* and on the 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 issue an Interpretation, a Proposed Agenda Decision containing the reasons for not adding the issue to the AASB's agenda, 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 Agenda Decision;
- (f) consistent with the IASB's *Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters*, the AASB liaises with the IFRIC/IFRIC staff on issues being addressed nationally. Although some constituents have suggested the desirability of obtaining assurance from the IFRIC in some way, the IFRIC has stated that it will not give assurance that a national Interpretation is either consistent or inconsistent with IFRSs; and
- (g) 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.

4. IFRIC Interpretations and Draft Interpretations

Under the model the AASB is responsible for making submissions on IFRIC Draft Interpretations and considering IFRIC 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 IFRIC Draft Interpretation for consideration by the AASB or whether a draft submission should be prepared by staff; and



- (b) the AASB should deal directly with adopting an IFRIC 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 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 including those in the public sector, such as AASB 1004 *Contributions*.

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

6. Secretariat

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