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Interpreting IFRS: The Evolving Role of Agenda Decisions

This study examines the evolution of the interpretative support provided by the IFRS Interpretations Committee (IC), the interpretative body of the International Accounting Standards Board (IASB), over the period 2002–2019. The study focuses on its most frequent output, agenda decisions (ADs), which can provide guidance that practice has long considered relevant and has been explicitly considered authoritative since 2020. We investigate whether the IC has provided additional guidance and changed the formulation of ADs over time in response to constituents' criticism from the perspective of legitimacy theory. We find that the IC has progressively added more explanatory material and formulated ADs in a more complete and nuanced manner so as to gain consequential legitimacy by substantially addressing the constituents' interpretation demands. This evolution points to the growing role of ADs, which strike a balance between difficult to reconcile objectives. Providing more substantial support to constituents' submissions can be seen as a balancing act between a more explicit shift from principles to rules, and leaving room for local interpretations that could threaten the consistent application of International Financial Reporting Standards (IFRS). In shedding light on the IC's substantial response to the challenges posed by conflicting pressures and objectives, we add to the standard-setting literature by providing evidence-based insights into under-researched areas of IFRS interpretation. We also respond to calls for more policy-oriented research and offer two proposals to enhance the clarity of ADs in the light of their evolving content and increasing relevance.

Key words: Agenda decisions; Consequential legitimacy; Due process; IFRIC; IFRS interpretation; Standard setting.

Academics, practitioners, and policy-makers agree that accounting standards need to be interpreted for their effective application and to foster comparability, a crucial factor in worldwide financial reporting (European Commission, 2000; Fédération des Experts Comptables Européens, 2001; Zeff, 2007; Securities and

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Exchange Commission, 2012). The interpretation of International Financial Reporting Standards (IFRS)¹ is particularly relevant because of their global diffusion (Linnenluecke *et al.*, 2017), which makes it challenging to reconcile the needs and values of jurisdictional constituents with the need of setting international accounting standards (Camfferman and Zeff, 2018). Indeed, the increase in number of jurisdictions adopting IFRS over the last two decades has resulted in a growing variety of constituents' requests to the International Accounting Standards Board (IASB), especially considering their different accounting traditions.

The demand for official IFRS interpretation stems from their standard principles-based nature resulting in different opinions on the appropriate interpretations (Brown and Tarca, 2007) and thus raising the issue of consistent application (Wüstemann and Wüstemann, 2010). Indeed, principles-based standards may require more guidance than rules-based ones (Benston *et al.*, 2006) because the latter contain more bright-line thresholds and require relatively less judgement (Bradbury and Schröder, 2012). Additionally, globally adopted principles-based standards can raise implementation issues, especially in rules-based jurisdictions, potentially hindering consistent application.

This complex interpretation demand poses a challenge to the IASB and the International Financial Reporting Standards Interpretations Committee (IFRS IC; hereafter the IC²), the technical body officially in charge of interpreting the application of IFRS globally. In such a scenario, the IC has to play a primary role in supporting IFRS implementation, particularly considering the comparability objective pursued through IFRS adoption (Zeff, 2007). Conversely, local interpretations or the implementation guidance of national standard setters or securities regulators can be a potential source of jurisdictional variation through instances of modifying the IFRS text upon adoption in a jurisdiction (Camfferman and Zeff, 2015). Hence, the IASB and the International Accounting Standards Committee (IASC) have often discouraged the national interpretation of IFRS. However, the IC's objectives partly differ from those of the technical bodies officially in charge of interpreting rules-based standards (e.g., the US Emerging Issues Task Force (EITF)), in that they include maintaining the standard principles-based nature (Appendix, Table A2), which is a distinctive feature of IFRS.

Over the last two decades, the IC has been severely criticized for not providing sufficiently effective and timely interpretations and guidance to support IFRS application (International Accounting Standards Committee Foundation, 2005; IFRS Foundation, 2012), and consequently has evolved in several aspects (e.g., composition, due process). The IFRS interpretation process has been pointed out as a weak element of its environment on several occasions and cited

¹ For ease of reference, Table A1 in the appendix contains the list of abbreviations used in the paper.

² For the sake of simplicity, we refer to the official IFRS interpreting body as the IC throughout the article, without considering its name changes, which are detailed in the background section (i.e., International Financial Reporting Interpretations Committee (IFRIC) and International Financial Reporting Standards Interpretations Committee (IFRS IC)). We use IFRIC or IFRS IC only in quotations or when the name is part of an official document title.

as one of the crucial areas to be improved by the Securities and Exchange Commission (SEC) (Levitt, 1997; Turner and Godwin, 1997; SEC, 2012) and IFRS adopters (Bradbury, 2007). This criticism has long been a matter of concern for the IASB, which places great importance on legitimacy (Sacho and Oberholster, 2008; Botzem, 2012; Botzem and Dobush, 2012) because of its private nature (Fogarty, 1998; Schmidt, 2002).

Despite the relevance of and challenges in IFRS interpretation, only a few studies have specifically examined this topic. To the best of our knowledge, no study has extensively covered the activity of the IC after 2007. We attempt to fill this gap by providing evidence-based insights into the evolution of the official IFRS interpretation process; this can lead to IFRIC interpretations, IFRS narrow-scope amendments, and agenda decisions³ (ADs). Specifically, we examine the interpretative support offered over the period 2002–2019 through ADs. The IC issues ADs informing constituents that their submission has not been added to its agenda (or addressed in any other way) to develop an IFRIC and possibly provides explanatory material to support the application of standards. Thus far, ADs have been the most frequent output of the official IFRS interpretation process; 23 IFRIC interpretations (i.e., IFRIC) were finalized and 325 ADs were issued during the period 2002–2019 (Figure 1).

IFRS constituents have long recognized the relevance of ADs (Kenny and Larson, 2009; IFRS Foundation, 2012) because they can include explanatory material and thus provide guidance as well as address interpretation requests at the IC's discretion. The level of authority for the guidance in ADs was a grey area until 2020, when the *Due Process Handbook* clarified that the explanatory material in ADs was authoritative, deriving authority from the standards themselves (IFRS Foundation, 2020, para 8.5). However, prior to 2020, the accounting practice was to consider guidance in ADs as mandatory quasi-interpretations (Kenny and Larson, 2009; IFRS Foundation, 2012), given the position of the issuer.

This study analyzes the evolution of the interpretative support offered through IC ADs during the period 2002–2019 from the perspective of legitimacy theory (Meyer and Rowan, 1991; Suchman, 1995). Using the theoretical framework proposed by Larson (2002), we address the following two research questions to understand whether the IC's interpretation output evolved to gain consequential legitimacy, a type of moral legitimacy based on the evaluation of organizational output. We investigate whether the IC did provide more guidance through ADs over time (RQ1), and whether it changed the ADs' formulation over the investigation period in response to constituent requests (RQ2).

Our findings show that the IC progressively added more explanatory material and formulated ADs in a complete and nuanced manner, suggesting growing attention to constituents' interpretation demand. This evolution points to the growing role of ADs in the IFRS environment, supporting the view that the IC,

³ The term used for this interpretation output changed during our investigation period, as detailed in Table 1. For the sake of simplicity, we refer to it as ADs in the text regardless of the issue date.

TABLE 1

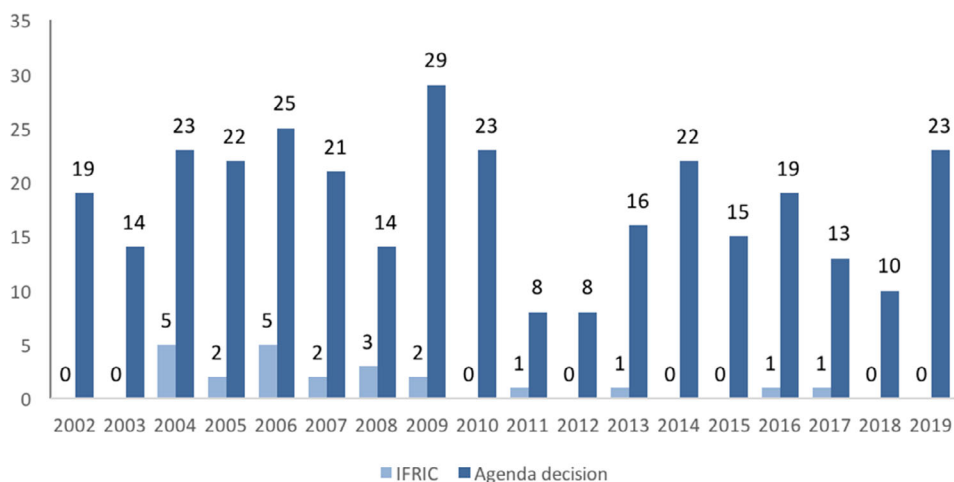
EVOLUTION OF IFRS INTERPRETING BODY AND DUE PROCESS

	Evolution
Interpreting body	2002–2009: IFRIC 2010–present:* IFRS IC
Interpreting body’s composition	2002–2007: 12 members 2008–present:* 14 members
Interpreting body’s president	2002–2005: Kevin Stevenson 2005–2011: Bob Garnett 2011–2016: Wayne Upton 2016–2022: Sue Lloyd 2022–present:* Bruce Mackenzie
Comment period for agenda decisions	2002–2005: none 2005–2012: 30 days 2013–present:* 60 days
Authority of agenda decision	2002–2019: informative 2020–present:* authoritative (derived from IFRS)
Terminology for agenda decisions in the <i>Due Process Handbook</i>	2002–2019: Rejection notices 2020–current:* Agenda decisions
Terminology for agenda decisions in the IFRIC Update	2002–2005: Items not added to the agenda 2005–current:* Agenda decisions

*Current: June 2023

FIGURE 1

NUMBER OF IFRIC INTERPRETATIONS AND AGENDA DECISIONS (2002–2019)



This figure displays all IFRIC interpretations and ADs issued by the IC for each year from 2002 to 2019.

and more generally the IASB, tries to gain consequential legitimacy and strikes a balance between objectives that are challenging to reconcile. Supporting the constituents’ submissions can be an alternative option between the two extremes.

While changing the IC's mandate and due process radically would imply an explicit shift from principles to rules and higher resources, rejecting the constituents' submissions without providing guidance would leave room for local interpretations, affecting the consistent application of IFRS.

This study sheds light on how the IC responds to the challenges posed by contrasting pressures and objectives, thus adding to the standard-setting literature by providing evidence-based insights into the under-researched area of IFRS interpretation. The evolution and growth of ADs indicate a progressive but substantial change in IC output to gain legitimacy following constituents' criticisms, further suggesting a more nuanced distinction between standards based on principles or rules. This study also responds to the call for more policy-oriented research (Singleton-Green, 2010; Abela and Mora, 2012; Dyckman and Zeff, 2015; Camfferman and Zeff, 2018; Leuz, 2018) with two proposals to enhance the clarity of ADs considering their increasing relevance and evolving content.

BACKGROUND: IFRS INTERPRETATIONAL PROCESS

The IC and its due process have evolved in several ways with the growing adoption of IFRS, resulting from the growing demand for consistent application and concerns raised in constituent consultations (e.g., Reviews of the Constitution by Trustees of the International Accounting Standards Committee Foundation (IASCF) in 2005 and of Efficiency and Effectiveness by Trustees of the IFRS IC in 2012). Requests for interpretation made to the IASC received private responses from staff members until 1996 (Cairns, 1999; Larson, 2002), when the Standing Interpretations Committee (SIC) was established. SIC was the first official International Accounting Standards (IAS) IC. The IFRIC replaced the SIC in 2002. It was then renamed the IFRS IC in 2010 following constitutional changes made by the IASB (Table 1). This section focuses on the IC's main changes from 2002 to 2019, our analysis time horizon.

Initially, the IC had a non-voting president and 12 voting members. It increased its number of voting members to 14 in 2008 and made its meetings public in 2007.⁴ The IC's objectives as stated in official statements have remained substantially stable over time (Appendix, Table A2). These include interpreting the application of IFRS, providing timely guidance on issues of financial reporting not specifically addressed in the IFRS, and taking up other tasks at the request of the IASB. Given that the IC must consider all matters received without filtering any item, a crucial phase in interpretation is to consider whether an interpretation request raises a matter that should be added to the IC's agenda. The IC must take a decision on this following its agenda criteria formally set in the first IFRIC *Due Process Handbook* in 2007, which has not changed much in the following versions (Appendix, Table A3).

⁴ Before 2007, the public could attend IFRS meetings when technical matters were discussed.

These criteria state that submissions are added to the IC's agenda only if they meet all the following conditions: they must have (i) a widespread and material effect, (ii) the need to reduce diversity in practice and improve financial reporting, and (iii) the ability to be addressed within the existing IFRS efficiently and cost effectively. The IC's decision to add an issue to its agenda has direct consequences for the process output. It addresses the items added to its agenda by developing an IFRIC interpretation or referring them to the IASB, possibly by recommending an IFRS narrow-scope amendment to the IASB. Otherwise, it issues an AD stating why it did not add the item to its agenda. ADs were subject to 30 days of public consultation in 2005. This was extended in 2013 to 60 days to increase participation (Table 1) considering the full and fair consultation principle, which states that wide consultation with stakeholders enhances IFRS quality (IFRS Foundation, 2020).

ADs received little attention in the *Due Process Handbook* until its latest version in 2020; however, they are the most frequent output of the IC's interpretation process. Practitioners have long recognized the relevance of ADs (Kenny and Larson, 2009; IFRS Foundation, 2012), which not only explain the reasons for not adding an item to the IC's agenda but also provide guidance without adding or changing any IFRS requirements. In other words, ADs can explain how IFRS principles and requirements apply to the transaction or fact pattern described in the interpretation request, thereby fostering consistent IFRS application. Nevertheless, the issuance of ADs has been a grey area in several respects, including their status. Indeed, early versions of the *Due Process Handbook* devoted limited attention to ADs, which were initially labelled as 'issues that are not added to the agenda', and then called 'rejection notices' until 2020 (Appendix, Table A4) even though the term 'agenda decision' has appeared in IFRIC Updates since 2005. Additionally, no IFRS public document has so far explicitly mentioned the IC's criteria for including explanatory material in ADs.

The 2013 *Due Process Handbook* was the first document to clarify the authority of the explanatory material in ADs, stating further that they were helpful, informative, and persuasive but did not have the authority of IFRS or mandatory status (Appendix, Table A4). However, this position did not close the lively debates on their status and role (Bradbury, 2007; IFRS Foundation, 2012) as many subjects, including some enforcers, deemed the guidance in ADs substantially mandatory, given the authority of their issuer. For instance, the European Securities and Markets Authority (ESMA) explicitly required preparers to carefully consider ADs when determining accounting policies (ESMA, 2011).

The lack of clarity on the status of ADs re-emerged in 2017 when the IASB tried to promote the application of ADs in financial statements by amending IAS 8. More specifically, it proposed to lower the impracticability threshold relating to retrospective application of voluntary changes in accounting policies due to ADs.⁵ The idea of a cost-benefit threshold for retrospective application stifled the lively debates about ADs and their unclear status, and ultimately induced the IASB not to proceed.

⁵ For details about the project, see <https://www.ifrs.org/projects/completed-projects/2020/accounting-policy-changes/>.

The most recent statement from the IFRS Foundation on the matter came with the 2020 *Due Process Handbook*, according to which ADs derived their authority from the standards themselves, implying that IFRS adopters are required to apply them (Appendix, Table A4). Mandatory application of ADs is also reflected in an explicit vote the IASB must express before their final publication, which does not occur if four or more board members object (IFRS Foundation, 2020, para. 8.7).

LITERATURE REVIEW

The accounting regulation literature pays growing attention to standard setting (Van Mourick and Walton, 2013), with many studies exploring IFRS with a focus on the governance of the IASB and its activity as a political process (Zeff, 2002; Georgiou, 2010; Giner and Arce, 2012; Jorissen *et al.*, 2012; Zeff, 2012; Larson and Herz, 2013; Botzem, 2014; Bamber and McMeeking, 2016; Camfferman and Zeff, 2018). Notable contributions (Camfferman and Zeff, 2007; Zeff, 2012; Camfferman and Zeff, 2015) underpin the importance of IFRS interpretation after the SIC was established in 1996, substantially responding to the concerns of the SEC and the International Organization of Securities Commissions (IOSCO) on IAS interpretation mechanisms (Wahlen *et al.*, 1999; SEC, 2000; Larson, 2002; Nicolaisen, 2005). The literature sheds light on how the activity evolved, in addition to the composition of the IC, which underwent several changes, primarily to increase its legitimacy through representativeness and due process inspired by transparency and full and fair consultation (Camfferman and Zeff, 2007, 2015). Indeed, the IC has been severely criticized for its composition and activity, especially in terms of effectiveness in timely interpretation and guidance, application of agenda criteria, and limited involvement with other interpretative bodies (IASCF, 2005; IFRS Foundation, 2012). Even the SEC stated that its decision to accept IFRS for foreign companies—eventually made in November 2007—depended partly on the development of a method for speedy official interpretations (Levitt, 1997; Turner and Godwin, 1997).

A relevant theoretical perspective for investigating the evolution of the IFRS interpretation process is organizational legitimacy, intended as the acceptance of an organization by its institutional environment, which is vital for organizational survival and success (Meyer and Rowan, 1991). Indeed, the IASB and the IASCF had to devote much time and effort to gain and maintain legitimacy (Sacho and Oberholster, 2008; Botzem, 2012; Botzem and Dobush, 2012) because of the challenges in setting standards for a worldwide constituency with no direct democratic authority (Richardson and Eberlein, 2011; Camfferman and Zeff, 2018). Larson (2002) adopted this theoretical stance to investigate the SIC's activity up to mid-2000, applying the legitimacy types outlined in Suchman (1995) to the IFRS interpretation process (Table 2).

Focusing on moral and exchange legitimacy, Larson's (2002) analysis of the SIC's due process, structure, membership, and constituent participating shows sound elements and areas for improvement. In particular, low constituent

TABLE 2

TYPES OF ORGANIZATIONAL LEGITIMACY

Legitimacy types	Legitimacy subtypes
Moral legitimacy: Evaluation of organization and its activities	Consequential legitimacy: Based on outputs and consequences. Not analyzed by Larson (2002) Procedural legitimacy: Based on techniques and procedures used (IC's due process) Structural legitimacy: Based on categories and structures used (IC's delegated authority and membership) Personal legitimacy: Evaluation of leaders and representatives. Not analyzed by Larson (2002)
Pragmatic legitimacy: Based on self-interest calculations of organization's most immediate audiences	Influence legitimacy: Based on organization's responsiveness to constituents' interests Not analyzed by Larson (2002) Exchange legitimacy: Based on the value of organization's policies to a particular set of constituents, often involved direct exchanges (active constituent IC's lobbyists) Dispositional legitimacy: Based on widespread belief in an organization's good character
Cognitive legitimacy: Based on comprehensibility or taken-for-grantedness	

Adapted from Larson (2002).

participation and lack of stakeholder participation from outside the accounting profession cast some doubts on the SIC's progress towards legitimacy, given that corporations are a crucial constituent of any accounting standard setter. Constituent participation is the focus of a subsequent study by Larson (2007) on the exchange legitimacy acquired by the IC through its activity from May 2003 to January 2006. An analysis of the comment letters to the first 18 draft interpretations indicates a significant increase in constituent participation despite the low number of comment letters from corporate preparers and users and the high concentration of responses (i.e., 35 organizations generating 58% of all comment letters).

Another recurring criticism of the IC is the low level of interpretative support offered to constituents, with a primary focus on IFRIC interpretations. The standard-setting literature shows that the IC received a limited number of interpretation requests during its first years of activity due to a certain reluctance on the part of audit firms to submit issues (Camfferman and Zeff, 2015). However, the low level of interpretations was not so much caused by a lack of submissions as by the IC's restraint in responding to them (Camfferman and Zeff, 2015). This approach stemmed from their aim to preserve the principles-based nature of IFRS, explicitly stated in recent IFRS documents (Appendix, Table A2), conflicting with constituents' constant pressure for more interpretation and greater

detail in IC output (IFRIC Report, IASCF Trustees Meeting, October 2006; Camfferman and Zeff, 2015).

Studies on specific IFRIC interpretations adopt different perspectives to investigate the accounting issues and lobbying activities of IFRIC 3 (Zhang-Debreceeny, 2010; Giner, 2014) and IFRIC 13 (Chapple *et al.*, 2010), but do not closely examine the differences between standard setting and interpretation. To the best of our knowledge, only one study (Bradbury, 2007) broadens the scope of analysis beyond IFRIC interpretations to explore the IFRS interpretation process from 2002 to March 2007 considering ADs as well. The IC produced 14 final interpretations, 20 draft interpretations, and 120 ADs during the investigation period. ADs were motivated by clarity of existing guidance (27.6%), choice to refer an issue to a board's project (26%), and the fact that the issue was not widespread, was relatively narrow, or lacked diversity in practice (22.8%).

This detailed analysis highlights the primary importance of the interpretation process (and ADs) after the global adoption of IFRS, and shows how it evolved to address the concerns raised in the IFRIC Review of Operations (IASCF, 2005). Bradbury (2007) highlights the IC's challenging search for a balance between providing guidance and retaining the principles-based nature of IFRS. Additionally, this study sheds light on the trade-off between providing timely responses and respecting the due process, which inevitably takes time. In this regard, the IC was considered to place more emphasis on due process than timeliness (Bradbury, 2007), stressing the difference with other interpretative bodies that focused on addressing urgent issues, such as the US Emerging Issues Task Force (EITF) (Kenny and Larson, 2009).

Recent studies on the IFRS interpretation process beyond IFRIC interpretations explore the controversial AD on cryptocurrency holdings, which have been criticized by constituents and board members, and other IFRS interpretations outside the IC's activity. An analysis of the debate leading to the AD on cryptocurrency holdings in 2019 underpins the growing relevance of ADs as interpretation tools as well as the limitations of the due process in addressing emerging issues through standards or interpretative guidance (Ramassa and Leoni, 2022). This analysis also suggests that IFRS interpretations might reflect the desire to defend the IASB's position in the regulatory space. Additionally, lack of official guidance on interpretative matters can result in divergent practices and even reduce the enforceability of accounting standards (Quagli *et al.*, 2021).

Recent studies have also shed light on the thin boundaries between standard setting, interpretation, and implementation. The IFRS 17 Transition Resource Group shows the political activity of an interpretive community co-constructing the meaning of a new standard (Daum and Pelger, 2021). Daum and Pelger (2021) highlight the search for legitimacy of standard setters' and preparers' attempts to maintain broad interpretations to enable manoeuvrability. Complex IFRS interpretative matters and the coordination of IFRS interpretation present significant challenges to globalized firms, such as large accounting firms, leading to establishing professional practice function units, which play a pivotal role in 'bridging' the gap between the local and global scales of operation (Kohler *et al.*, 2021).

DEVELOPMENT OF RESEARCH QUESTIONS

Our study extends the IFRS interpretation literature through a comprehensive analysis of IC ADs, which are largely under-researched despite their growing frequency and relevance. Our investigation is based on legitimacy theory, a highly suitable approach to explore IFRS interpretation (Larson, 2002), especially in view of the complex challenges faced by the IASB (Camfferman and Zeff, 2018) and considerable criticism around the interpretation process of IFRS (IASCF, 2005; IFRS Foundation, 2012). Specifically, we focus on consequential legitimacy, a type of moral legitimacy based on the principle that organizations should be judged by their accomplishments (Suchman, 1995) and evaluated on their outputs and activity outcomes.

Larson (2002) adopted this perspective for his theoretical framework, stressing that measuring the accomplishments of standard setters is particularly difficult because of the intangible and subjective nature of their output. The SIC was then new and did not allow judging its outputs beyond preliminary assessments, thus further compounding the difficulty of measurement (Larson, 2002). After two decades, we are better placed to analyze the evolution of IC outputs— notably ADs—by adopting this theoretical perspective, which is particularly relevant considering the criticism surrounding the IC's low interpretative support offered over the years. Thus, we can assume that the IC has progressively changed its use of ADs to gain legitimacy through substantial compliance with constituent requests. Considering these factors, we now raise two research questions on aspects that have long been at the centre of lively debates between the IASB and its constituents.

First, we explore the use of ADs to provide guidance to submitters. This is of central importance to understand the interpretative support of ICs and the role of ADs in the IFRS environment. The capacity of ICs to provide useful and timely interpretation has been questioned several times (IASCF, 2005; IFRS Foundation, 2012). In view of the constituents' concerns, it would be too simplistic to interpret the low number of IFRIC interpretations issued as inadequate support for IFRS application without considering the role of ADs. Indeed, the IC can include explanatory notes in its ADs to satisfy the constituents' interpretation demand instead of developing IFRIC interpretations.

Building on legitimacy theory, we believe that the IC could have increased its interpretative support through guidance in ADs to meet constituents' interpretation demands substantially. Although ADs had a non-authoritative status during the period under investigation, the guidance included in ADs has always been a relevant source for practice and regulators (Kenny and Larson, 2009; IFRS Foundation, 2012). Thus, the actual lack of official interpretative support for IFRS adopters is limited to cases where the IC did not include any guidance in its final ADs. Additionally, notable authors believe that rejecting a submission could be considered an adverse comment on the judgement of those making the request, as clearly understood by the IASB and indicated in the following quote: 'There were two ways of irritating constituents: the first was to impose an unwelcome change,

and the second was then reject requests for an interpretation'.⁶ From this perspective, adding explanatory material to an AD—rather than refusing to add an interpretation project to the agenda—could mitigate constituents' negative perceptions of the responses to their requests.

However, IFRS bodies repeatedly emphasized the importance of striking a balance between the principles-based nature of IFRS and providing useful and practical guidance (Camfferman and Zeff, 2015). This position was clearly expressed by Sir David Tweedie and subsequently reaffirmed by IFRS bodies in several documents, as the following extracts show:

The Board is aware that producing more and more rules is liable to be counterproductive. The IFRIC has already been warned that many of us on the Board do not expect a stream of interpretations which, in essence, become rules.

(Sir David Tweedie, IASCF Trustees Meeting, 12 June 2002, a.p. 2, pars. 29)

IFRIC [...] should stress that its role was to provide high-level guidance on issues of principle rather than to engage in detailed application guidance. [...] Members agreed that they in no way wished to suggest that they did not need to deal with issues expeditiously or that issues they dealt with were not urgent. However, the point needed to be made that in a conflict between speed of decision and due process, the latter should prevail.

(IFRIC Update, November 2005, p. 5)

... both bodies [IASB and IC] see the Interpretations Committee as working in partnership with the IASB to give guidance that responds to the implementation needs of those applying IFRSs. Both bodies also see the importance of achieving a balance between the principle-based approach of IFRS and providing guidance with sufficient detail to ensure that it is useful and practical.

(IFRS Foundation, 2016, para. 5.15)

Considering these factors, we formulate our first research question as follows:

RQ1: Did the IC provide more guidance in its ADs over time?

Our second research question concerns the formulation of ADs, which can affect both the clarity of interpretative support and the consequences of ADs. More specifically, the evolution of the AD content in terms of length and wording can signal growing attention towards the constituents' needs, thus contributing to legitimacy. The AD length can indicate the attention devoted to providing a detailed analysis of the interpretation request in the light of existing IFRS. Longer ADs can contain explicit guidance or detailed explanations for not adding the submission to the IC's agenda, providing valuable insights for preparers, for instance, with references to specific IFRS paragraphs. These considerations

⁶ 'IASB Awaydays at Greywalls Hotel on 18 and 19 May 2006', IASB archive, 'awayday' files, cited by Camfferman and Zeff (2015, p. 394).

resonate with criticisms from constituents on the ADs' brevity that could impair their usefulness with the passing of time (IASB, staff paper 15A, February 2012 meeting). The ADs' length can proxy for clarity of interpretative support, especially considering the brevity of ADs, assuming that more words can provide more detailed guidance to constituents. This assumption is consistent with the recent literature on annual report readability, which suggests that longer financial reports are easier to read (Cheung and Lau, 2016), in contrast to the view that longer annual reports are less readable (Li, 2008).

Furthermore, the wordings of ADs—especially those including explanatory material—are relevant to IFRS preparers and accounting enforcers. For instance, as the ESMA explicitly states, 'there is an expectation on the part of the stakeholders in IFRS that rejection notes concluding that IFRSs are sufficiently clear will be carefully considered by preparers in determining their accounting policies' (ESMA, 2011). This point refers to a long-debated issue on the application of ADs, that is 'the difficulties that issuers encounter in deciding whether explanatory material in ADs shall be regarded as triggering a change in accounting policy or a correction of an error' (ESMA, 2018, comment letter in response to a proposed IAS 8 amendment on Accounting Policy Changes). ADs stating that IFRS are sufficiently clear might induce enforcers to consider previous accounting policies contrasting the ADs' guidance as errors to be corrected (IASB, staff paper 15A, February 2012 meeting). This issue is highly relevant to preparers, as the following extract indicates:

Correction of an error is the Scarlet Letter of financial reporting. Characterising a change in accounting as a correction of an error usually has significant regulatory implications. At best, financial statement readers and the media wonder how competent managers and auditors can make an error. At worst, the same groups wonder about the integrity of those involved, and may contemplate legal action. (IASB, staff paper 15A, February 2012 meeting, p. 4)

From legitimacy theory, we can expect ADs to have become lengthier over time, change their formulation, avoid stating that IFRS were already sufficiently clear, and thus give more consideration to constituents' requests. Considering these factors, we formulate our second research question as follows:

RQ2: Did the IC change the formulation of ADs over time in response to constituents' concerns?

RESEARCH METHOD

To address our research questions, we conducted a detailed analysis of the entire content of all ADs issued by the IC from 2002 to 2019 in two phases. First, we analyzed each AD to assess whether it represents the IC's final response to an

interpretation request in order to exclude from our investigation the ADs informing the submission of minor maintenance decisions (e.g., editorial corrections) or referrals to the IASB. This provided us with a final dataset of ADs focusing on IC responses based on the official IFRS interpretation process, in line with our research objective. Second, we examined the content of all the ADs in our final dataset to consider: (i) some of their essential features (i.e., date, title, and standards involved); (ii) guidance provision; and (iii) and formulation (i.e., length and use of expressions mentioning standard clarity).

In both phases, we considered qualitative data (i.e., texts of ADs) and relied on qualitative content analysis to reduce their complexity through data coding (Flick, 2013). This assisted us in systematically describing the meaning of the qualitative data by assigning successive parts of the material to the coding frame and focusing on selected aspects of meaning related to our research questions (Mayring, 2000; Schreier, 2012, 2013). Qualitative content analysis developed out of the quantitative version of the method (Krippendorff, 1980), which has been frequently used in accounting research for several decades (Jones and Shoemaker, 1994; Clatworthy and Jones, 2003). Flexibility is the main feature differentiating it from quantitative content analysis (Schreier, 2013). We thus used it as an iterative process, partly modifying the coding frame to obtain a mix of concept- and data-driven categories. To enhance data analysis quality, the two authors worked together to build (and subsequently revise) the coding frame; then, a single coder carried out all the other phases of the qualitative content analysis (i.e., segmentation, trial coding, and the main analysis) (Schreier, 2013).

We manually collected all the ADs issued during 2002–2019 from the IFRS Foundation website, to obtain a dataset of 325 ADs. We then compared them with those published initially on IFRIC updates over the investigation period to ensure the analysis of the original texts. We built our coding frame by taking the following steps: selected material, structured and generated categories, defined categories, and revised and expanded the frame (Schreier, 2013). Using this coding frame, we manually analyzed the ADs, which represent our coding unit,⁷ with regard to the following categories: (i) date; (ii) accounting standards mentioned in the interpretation requests; (iii) final decision; (iv) provision of implementation guidance; (v) AD length; (vi) expressions mentioning the clarity of IFRS; and (vii) reasons for not adding issues to the agenda. These categories (Appendix, Tables A5 and A6) are helpful in analyzing how the ADs evolved over the investigation period and in addressing our two research questions.

Data on the issue date of each final AD, standards mentioned, and AD length (in words) can be obtained from the ADs or easily determined from their text (e.g., AD length). We used data-driven data to assess whether each AD is the IC's final decision (without mentioning any other action) or whether the issue has been referred to the IASB or addressed through maintenance

⁷ Some ADs address more than one interpretation issue but we did not split them issue by issue as in all instances they considered a single topic (e.g., income taxes) and shared the same final decision as well as the reasons for not adding them to the agenda.

decisions (e.g., editorial corrections, educational material). We then coded the ADs into subcategories based on their text without interpretation efforts aimed at trying to capture the IC's reasons or intentions. Indeed, the IC chooses the wording of ADs very carefully and has to some extent standardized the terminology used since November 2004 (Bradbury, 2007). This category enabled us to determine our final AD dataset, which includes all final IC responses to the constituents' interpretation requests.

For these ADs, we assessed whether they include guidance considering a more context-dependent meaning, which required examining the entire AD. Indeed, the explanatory material is not explicitly given in a specific section or paragraph but must be understood by reading the full text with careful reference to the standards. Hence, we coded this category into the following data-driven subcategories: (i) lack of guidance; (ii) partial guidance; and (iii) full guidance (see Table 3 for examples). Lack of guidance refers to cases where the IC does not provide implementation support to the submitter in any form. Partial guidance refers to the ADs that include some guidance but do not take a final and clear position, explicitly stating that the accounting to be applied would depend on each

TABLE 3
EXAMPLES OF 'IMPLEMENTATION GUIDANCE' SUBCATEGORIES

Subcategories	Examples
(i) Lack of guidance	Many Interpretations Committee members observed that, in their experience, the circumstances in which an entity should derecognize financial assets that have been modified or exchanged is an issue that arises in practice. However, because of the broad nature of the issue, the Interpretations Committee noted that it could not resolve it in an efficient manner. Consequently, the Interpretations Committee decided not to further consider such a project. (Agenda decision, May 2016)
(ii) Partial guidance	The Interpretations Committee identified characteristics of a lease in the fact pattern considered, in accordance with the definition of a lease as defined in IAS 17. The Interpretations Committee noted that a lease could be indefinite via extensions or renewals and, therefore, the existence of an indefinite period does not prevent the 'right to use' from qualifying as a lease in accordance with IAS 17. The Interpretations Committee also noted that the lessee has the option to renew the right and that the useful life for depreciation purposes might include renewal periods. Judgment will need to be applied in making the assessment of the appropriate length of the depreciation period. (Agenda decision, September 2012)
(iii) Full guidance	The IFRIC noted that current IFRSs provide guidance on when revenue arising from dividends shall be recognized. The IFRIC noted that when all ordinary shareholders are issued a dividend of an investee's own equity instruments on a pro-rata basis there is no change in the financial position or economic interest of any of the investors. In this situation, in accordance with paragraph 29(a) of IAS 18, the dividend is not recognized as revenue because it is not probable that there is an economic benefit associated with the transaction that will flow to the investor. (Agenda decision, January 2010)

specific case and individual judgement. Conversely, full guidance refers to the ADs where the IC's analysis substantially addressed and resolved issues (e.g., by explicitly stating that a particular cost cannot be capitalized).

With regard to the formulation of ADs (RQ2), we measure AD length by number of words and review the presence of expressions emphasizing the clarity of IFRS requirements. Word count relates to the entire AD text, which is typically not structured into sections with titles. The use of formulations to explicitly mention the clarity of standards and their requirements is investigated in all ADs that include guidance (i.e., partial or full guidance). This choice derives from the constituents' concern that 'strong' expressions could indicate a contrast between previous accounting policies and AD guidance, representing errors to be corrected. Thus, we consider all the sentences introducing guidance with the term 'clear', such as 'the standard was clear that', 'it is clear that', and 'standard requirements were clear'.

Our analysis is carried out in sub-periods, considering the most relevant events impacting the interpretation process from a legitimacy perspective. More specifically, we divide the 2002–2019 period into three sub-periods by the lively debates on the IC's activity and the consequent due-process changes: (i) 2002–2006; (ii) 2007–2012; and (iii) 2013–2019. The *Due Process Handbook* for the IFRIC (IASCF, 2007) was published in January 2007 and addressed some of the concerns raised in the IFRIC's review of operations (IASCF, 2005). The Trustee's Review (IFRS Foundation, 2012) was another milestone in the debates on the efficiency and effectiveness of the IC. This was followed by a revised version of the *Due Process Handbook* in 2013 (IFRS Foundation, 2013).

FINDINGS

Dataset Description

Our initial dataset included all the 325 ADs issued by the IC from 2002 to 2019, relating to 43 accounting standards and six interpretations (i.e., four IFRIC and two SIC interpretations). Each submission (excluding the one on cryptocurrency holdings) refers to a number of accounting standards ranging from one to three. Evidence (Table 4) shows a significant interest for financial assets and liabilities, groups and business combinations, and non-current assets during all three sub-periods. Other topics included in numerous interpretation requests include employee benefits, presentation and disclosure, taxes, revenue and inventories.

As Table 5 shows, 85.6% of ADs (278 out of the analyzed 325) state in their response to interpretation requests that the issue is not included in the IC agenda, with no indication of further action (such as referring to the IASB or taking other short-term action). This percentage rises to over 96% of ADs in the most recent sub-period, suggesting that ADs increasingly represent the final response to interpretation requests, especially as the IC issued only three IFRIC interpretations from 2013 to 2019.

TABLE 4
NUMBER OF ADS BY GENERAL TOPIC

	2002–2006	2007–2012	2013–2019	2002–2019
Financial assets and liabilities	32	30	28	90
Groups and control	25	22	33	80
Non-current assets	11	21	19	51
Employee benefits	13	20	9	42
Presentation and disclosure	11	9	12	32
Taxes	13	5	12	30
Revenues and inventory	10	2	10	22
Leasing	8	3	4	15
Industry-specific	1	2	3	6
IFRS transition	1	2	1	4
Other standards	6	4	7	17

Financial assets and liabilities includes IAS 32, IAS 39, IFRS 7, and IFRS 9; Groups and control includes IAS 22, IAS 27, IAS 28, IFRS 3, IFRS 10, IFRS 11, and SIC 12; Non-current assets includes IAS 16, IAS 23, IAS 36, IAS 38, IFRS 5, IFRS 6, and IFRIC 12; Employee benefits includes IAS 19, IAS 26, IFRS 2, and IFRIC 14; Presentation and disclosure includes IAS 1, IAS 7, IAS 8, IAS 10, IAS 24, IAS 33, IAS 34, and IFRS 8; Taxes includes IAS 12, IFRIC 21, and IFRIC 23; Revenues and inventory includes IAS 2, IAS 11, IAS 18, IAS 20, and IFRS 15; Leasing includes IAS 17, IFRS 16, and SIC 15; Industry-specific includes IAS 41 and IFRS 4; IFRS transition includes IFRS 1. Please note that totals do not equal the number of ADs in our dataset since each AD can refer to one to three standards/interpretations.

TABLE 5
DEFINITION OF THE FINAL DATASET

	2002–2006	2007–2012	2013–2019	2002–2019
Initial AD dataset	104	103	118	325
- Issues referred to the IASB	12	27	4	43
	(11.6%)	(26.2%)	(3.4%)	(13.2%)
- Maintenance decisions	4	0	0	4
	(3.8%)			(1.2%)
Issues to be included in future guidance*	2	0	0	2
Issues to be addressed via editorial corrections	1	0	0	1
Issues to be referred to the education team	1	0	0	1
Final AD dataset	88	76	114	278
	(84.6%)	(73.8%)	(96.6%)	(85.6%)
Issues not added to the agenda	86	74	109	269
Waiting	2	0	1	3
Issues to be removed from the agenda	0	2	3	5
Provision of additional guidance* after a previous agenda decision	0	0	1	1

*'Issues to be included in future guidance' refers to cases where the IC specifies in the ADs that the aspect will be addressed in future interpretations or guidance. 'Provision of additional guidance after a previous agenda decision' refers to one case where the IC provides additional guidance after a previous AD on the matter.

TABLE 6

PROVISION OF GUIDANCE WITHIN ADS (RQ1)

	2002–2006	2007–2012	2013–2019	2002–2019
No guidance	46 (52.3%)	31 (40.8%)	17 (14.9%)	94 (33.8%)
Partial guidance	4 (4.5%)	10 (13.2%)	9 (7.9%)	24 (8.6%)
Full guidance	38 (43.2%)	35 (46.0%)	88 (77.2%)	160 (57.6%)
Total	88 (100.0%)	76 (100.0%)	114 (100.0%)	278 (100.0%)

We find a few cases of short-term action (e.g., editorial corrections and illustrative examples in educational material),⁸ all between 2002 and 2006. These cases provide implementation support to preparers without lengthy due process and address submissions that do not require an entire interpretation or extensive guidance. Conversely, around 13% of ADs explain that they referred the issues to the IASB because it could address them more efficiently (e.g., as it was an ongoing project) or existing standards do not provide sufficient guidance on the topic. These options come under the provisions of due process, which states that the IC must address financial reporting issues within the confines of existing IFRS and the *Conceptual Framework*. The number of issues referred to the IASB decreased probably because the IASB's significant projects were completed, even though some of them resulted in long periods of uncertainty for preparers and users (IFRS Foundation, 2012).

Guidance and Formulation of ADs

To better understand the actual interpretation support offered by the IC, we analyze the guidance provided by 278 ADs that did not result in IASB referral or 'maintenance' decisions. Evidence (Table 6) shows that most submissions (184 out of 278) did receive guidance at least partially, and this trend increased over the years, in line with our expectations (RQ1).

Most ADs provided no guidance during the first sub-period (up to 2006). However, following the IFRIC *Review of Operations* (IASCF, 2005) and publication of the IFRIC *Due Process Handbook* (IASCF, 2007), we find a reduced tendency to reject interpretation requests without providing interpretative support. The second sub-period shows an increase in ADs including explanatory material (59.2%), mainly driven by ADs providing partial guidance, rising from 4.5% to 13.2%. The increased attention paid to interpretation requests is

⁸ ADs do not include the narrow-scope amendments proposed by the IFRS IC anymore. However, this output is much less frequent than ADs, as shown by recent disclosures on the IC's activity in the IFRS Foundation's annual reports (e.g., 21 ADs and two proposed targeted amendments in 2018, 16 ADs and seven amendments in 2017).

TABLE 7

AGENDA CRITERIA CITED IN ADS NOT PROVIDING GUIDANCE

	2002–2006	2007–2012	2013–2019	Total
<i>Relevance:</i>				
Not widespread		1	3	12
Not material	0	0	2	2
No practical relevance	6	0	0	6
<i>Diversity in practice:</i>				
Lack of diversity in practice	1	6	2	9
<i>Features of the issue:</i>				
No efficient resolution	1	1	1	3
Too narrow	2	0	2	4
Not narrow enough	0	0	9	9
Not to be addressed through an interpretation	6	12	1	19
No timely resolution	4	2	0	6
Adequate guidance	11	5	0	16
To be resolved in other projects	19	13	4	36

Each AD can mention more than one agenda criteria.

particularly evident in the last sub-period, when the IC provided technical answers to more than 85% of the submissions, with full guidance provided in more than three-quarters of cases. The final year of our analysis (i.e., 2019) shows a further rise in this tendency, with all 23 ADs providing explanatory material in response to interpretation requests (untabulated).

These findings suggest some possible explanations that do not necessarily exclude each other. In fact, several concurrent changes occurred in the IC’s composition, due process, and environment during our investigation period. First, the interpretation process could have improved owing to the completion of major IFRS projects, possibly providing the IC with an adequate base to address submissions. Other concurrent factors impacting the evolution of ADs could be the increase in the length of the comment period since 2013 and changes in the IC’s members and staff. From the perspective of interpretation demand, the progressive publication of ADs could have led to constituents submitting more relevant requests to the IC, thus having a sort of learning effect on both sides of the process.

Overall, evidence suggests that the IC progressively changed the content of ADs to enhance consequential legitimacy by producing interpretative outputs more aligned to constituents’ expectations. This evolution in AD use is not explicitly due to changes in the IC’s objectives or agenda criteria but could be a response to the criticisms raised by constituents during the Trustees’ Review of Efficiency and Effectiveness of the IC (IFRS Foundation, 2012) and the SEC’s position on allowing US firms to adopt IFRS (SEC, 2012). This trend also affected the agenda criteria in ADs to motivate decisions against adding submissions to the IC’s agenda (Table 7). Indeed, since 2013, requests that are too narrow and questions that ‘would be in the nature of implementation guidance’ decreased, while the ADs without guidance referred to requests that are too broad rather than those requiring implementation guidance.

TABLE 8

AVERAGE NUMBER OF WORDS IN ADS (RQ2)

	2002–2006	2007–2012	2013–2019	2002–2019
ADs with no guidance	132	230	297	194
ADs with partial guidance	241	288	454	342
ADs with full guidance	179	272	506	379
All ADs in the final dataset	157	257	471	313

TABLE 9

OCCURRENCE OF EXPRESSIONS REGARDING STANDARD CLARITY IN ADS (RQ2)

	2002–2006		2007–2012		2013–2019		Total
	Clear	Other	Clear	Other	Clear	Other	
Partial guidance AD	1 25%	3 75%	0 0%	11 100%	0 0%	9 100%	24
Full guidance AD	20 53%	18 47%	1 3%	33 97%	1 1%	87 99%	160
Partial or full guidance AD	21 50%	21 50%	1 2%	44 98%	1 1%	96 99%	184

'Clear' refers to the number of ADs that introduce guidance mentioning the term 'clear', while 'Other' refers to the number of ADs that introduce guidance in a more nuanced way.

Our analysis of the AD's formulation (RQ2) agrees with this interpretation, revealing increasing consideration of constituents' concerns and expectations. This tendency can be seen in the length of ADs, which increased steadily over the investigation period (Table 8).

Understandably, the average length of ADs is higher when they offer guidance, but interestingly the ADs' length progressively increased over the years whether or not they included explanatory material. This could be considered a purely formal issue, but the steady trend over the years can be a signal of growing attention to the criticisms raised by constituents, who felt that brevity of ADs could impair their clarity. From this, we might conclude that longer ADs with no guidance can be more informative about how the IC analyzes interpretation requests, whereas those with explanatory material can offer clearer and more detailed support to submitters. Furthermore, the increase in average AD length over the sub-periods appears substantial: 125% for ADs without guidance and 183% for those with full guidance.

Evidence suggests that in ADs the IC pays increased attention to IFRS adopters in their guidance, which, according to some constituents, can help in assessing whether applying an AD can be considered a change in accounting policy or correction of an error. When focusing on ADs that provide partial or full guidance, we find that the IC progressively refrains from using strong expressions

such as ‘the standard is clear’, and formulates ADs in a more nuanced manner (Table 9).

Half of the ADs providing guidance in the first sub-period (i.e., 2002–2006) emphasize the clarity in standards when explaining how to apply them. This strong formulation is unique to all ADs, but it explicitly uses the term ‘clear’, which might give the impression that interpretation requests are fairly easy to address. This formulation, which has almost disappeared since 2007, is substituted by more nuanced expressions such as ‘on the basis of the analysis above’ or ‘the standard provides an adequate basis’. This formulation underlines that the guidance in ADs is far from a predictable answer to a simple question. Indeed, the issues submitted to the IC include cases of doubt about the accounting policy required for a particular circumstance or transaction and accounting matters involving divergence in practice rather than basic issues that are easy to address. Overall, evidence suggests that the IC increasingly considers constituents’ concerns about the formulation of ADs that provide guidance and whose role has become more prominent over our investigation period.

DISCUSSION AND CONCLUSIONS

This study provides original insights into how the IFRS interpretative support offered by the IC through ADs evolved over time. ADs are the most frequent IFRS output and can contain relevant guidance for application. Our analysis covers the period 2002–2019 and focuses on the IC’s inclusion of guidance in ADs and formulation of ADs considering the official IFRS interpretative support beyond IFRIC interpretations, which have sharply decreased in the last decade. Evidence shows a clear trend towards including explanatory material more frequently and formulating ADs in a more complete and nuanced manner, suggesting that growing attention is being paid to constituents’ interpretation demands.

We interpret these findings from the theoretical perspective of legitimacy theory, arguing that the AD’s new role supports the view that the IC—and more generally the IASB—tries to gain consequential legitimacy (Suchman, 1995; Larson, 2002). Indeed, the IC’s capacity for useful and timely interpretations was seriously criticized, along with the growing global adoption of IFRS. The lively debate surrounding the IC’s effectiveness over the years led to progressive changes in its composition and due process, which could enhance its legitimacy (Larson, 2002, 2007; Bradbury, 2007) without radical revisions to its mandate and agenda criteria. The tendency of ADs to provide substantial interpretative support in a shorter time that would be taken to issue an interpretation or narrow scope amendment aligns with this legitimacy need, with particular reference to consequential legitimacy, which stems from the constituents’ evaluation of IC outputs.

The evolution examined here points to the growing role of ADs in the IFRS environment, which was reinforced in 2020 by explicitly stating the authoritative status of AD guidance (IFRS Foundation, 2020). In view of the complex challenges faced by the IASB, ADs increasingly pay attention to the interpretation demand

arising from the growing number of jurisdictions characterized by different accounting traditions. This type of support for the consistent application of IFRS can strike a balance between objectives that are challenging to reconcile. First, the desire to preserve the principles-based nature as a qualifying feature of IFRS accounting standards might contrast with the interpretation demand of jurisdictions, which could require implementation guidance on complex matters with real effects. Second, the lengthy due process inspired by transparency and full and fair consultation as well as the limited resources of the IC can hinder the ability to provide timely interpretation support to constituents. These challenges emphasize the relevance of legitimacy for the IASB, especially considering its private nature (Fogarty, 1998; Schmidt, 2002).

In this complex scenario, providing more substantial support for constituents' submissions through ADs can be an option to gain consequential legitimacy by avoiding two extremes: (i) explicitly changing the mandate and due process of the IC and making it more similar to the interpretative bodies of rules-based standards (e.g., the EITF), implying higher resources and a marked shift from principles to rules; and (ii) rejecting constituents' submissions without guidance and leaving room for local interpretations, hampering IFRS consistent application (House, 2006). In our view, this risk is likely, especially in view of the interpretation demand expressed by national standard setters in their dialogue with the IASB (IASB and IFASS, 2006, 2014). In 2014, the IASB and the International Forum of Accounting Standard Setters (IFASS) responded to this as follows:

The general principle under which other accounting standard-setters operate in relation to emerging issues is that, whenever possible, they support the IASB rather than deviate from IFRS or provide jurisdiction-specific local interpretations of IFRS. The IASB and other accounting standard-setters work together to minimise the necessity for local guidance. The need for local guidance will be reduced if the IASB, with the IFRS Interpretations Committee, makes its best efforts to respond to the IFRS implementation issues of local jurisdictions in a timely manner. (IASB and IFASS, 2014, p. 14)

This longitudinal study sheds light on the substantial response of the IC to the challenges posed by contrasting pressures and objectives. It fills a gap in the accounting literature by providing evidence-based insights into the outputs of the IC, building on previous studies on its initial activity (Larson, 2002, 2007; Bradbury, 2007) and shifting the focus from IFRIC interpretations to ADs. We analyze the under-researched area of IFRS interpretation and add to the standard-setting literature by showing how the IC's interpretation support progressively evolved to gain legitimacy through a change in output in response to constituents' criticisms. The response to one of the complex global financial reporting issues (Camfferman and Zeff, 2018) involves the substance of ADs, rather than their form or due process, and can be considered as signalling the IFRS bodies' inclination towards a more rules-oriented path

(Zeff, 2007). However, the growing role of ADs highlights the attempts to strike a balance between diverse stances, thereby suggesting a more nuanced distinction between principles- and rules-based standards.

This study responds to the call for more policy-oriented research (Singleton-Green, 2010; Abela and Mora, 2012; Dyckman and Zeff, 2015; Camfferman and Zeff, 2018; Leuz, 2018) and contributes to the debates on ADs with policy implications that will be of interest to standard setters and other constituents. Considering the increasing relevance and evolving content of ADs, we offer two proposals for enhancing the clarity of ADs without significant due process changes. First, the increasingly lengthening AD texts could be made more readable through a structured format, which could include sections for (i) submission description, (ii) relevant standards, (iii) IC analysis, (iv) explanatory material (if present), and (v) reasons for decision. Second, the consultation of ADs and reflection of their actual content can be made easier by giving different names to ADs with and without guidance. The current name ‘agenda decision’ emphasizes non-inclusion of requests in the agenda rather than the interpretation support they offer, which is the primary interest of constituents.

However, our findings should be considered in light of some limitations. Manual coding in qualitative content analysis is consistent with our research objectives but inevitably adds a certain degree of subjectivity. Additionally, we focused on the final outputs of the IC without considering previous phases of the interpretation process. More generally, the tendency found through our analysis could have resulted from diverse contributing factors, which are not necessarily alternatives and hence require further research to be adequately disentangled. Among these, the increased comment period of ADs, changes in the IC composition, membership, and staff, as well as the role of prominent actors in IFRS bodies, might have influenced the evolving role of ADs in our investigation period. These considerations suggest the need for future research on these issues to better understand the IFRS interpretation process and its implications for financial reporting.

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APPENDIX

TABLE A1
LIST OF ABBREVIATIONS

Abbreviation	Meaning
AD	Agenda decision
EITF	Emerging Issues Task Force
ESMA	European Securities and Markets Authority
FEE	Fédération des Experts Comptables Européens
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IC	Interpretations Committee, term used to refer to the official interpretation body of IFRS, without distinguishing based on the adopted denomination
IFASS	International Forum of Accounting Standard Setters
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IFRS IC	International Financial Reporting Standards Interpretations Committee
SEC	Securities and Exchange Commission
SIC	Standing Interpretations Committee

TABLE A2
THE INTERPRETATIONS COMMITTEE'S OBJECTIVES

Year and source	Interpretation Committee's objectives
2002 Constitution* (para. 37)	<p>The Committee shall:</p> <ul style="list-style-type: none"> (a) interpret the application of International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) and provide timely guidance on financial reporting issues not specifically addressed in IASs and IFRSs, in the context of the IASB Framework, and undertake other tasks at the request of the IASB; (b) in carrying out its work under (a) above, have regard to the IASB's objective of working actively with national standard-setters to bring about convergence of national accounting standards and IASs and IFRSs to high quality solutions; (c) publish after clearance by the IASB Draft Interpretations for public comment and consider comments made within a reasonable period before finalising an Interpretation; and (d) report to the IASB and obtain its approval for final Interpretations.
2007, IFRIC <i>Due Process Handbook</i> (para. 5)	<p>In the context of its requirements for due process, the IFRIC reviews newly identified financial reporting issues not specifically addressed in IFRSs or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the</p>

(Continues)

IFRS AGENDA DECISIONS

TABLE A2

CONTINUED

Year and source	Interpretation Committee's objectives
2013, IASB and IFRS IC <i>Due Process Handbook</i> (para 5.15)	absence of authoritative guidance, with a view to reaching a consensus on the appropriate treatment. The objectives of the Interpretations Committee are to interpret the application of IFRSs, provide timely guidance on financial reporting issues that are not specifically addressed in the IFRSs and undertake other tasks at the request of the IASB. The IASB and the Interpretations Committee share a common view on the role that the Interpretations Committee should play: both bodies see the Interpretations Committee as working in partnership with the IASB to give guidance that responds to the implementation needs of those applying IFRSs. Both bodies also see the importance of achieving a balance between the principle-based approach of IFRS and providing guidance with sufficient detail to ensure that it is useful and practical.
2020, IASB and IFRS IC <i>Due Process Handbook</i> (para. 5.13)	The Board and the Interpretations Committee work together in supporting the consistent application of IFRS Standards. They do so by, among other things, issuing narrow-scope amendments to the Standards, issuing IFRIC Interpretations and publishing agenda decisions to address application questions. The Board and Interpretations Committee seek to achieve a balance between maintaining the principle-based nature of the Standards and adding or changing requirements in response to emerging application questions.

*The first IFRIC *Due Process Handbook* was issued in 2007. The 2020 version of the IASB and IFRS IC *Due Process Handbook* is included in this table and the following ones because it is a relevant source to document the evolution of ADs and clarifies several issues discussed in this study. However, we note that the time horizon of our analysis of ADs ends in 2019.

TABLE A3

AGENDA CRITERIA

Year and source	Agenda criteria
2007, IFRIC <i>Due Process Handbook</i> (para. 24)	The IFRIC assesses proposed agenda items against the following criteria. An issue does not have to satisfy all the criteria to qualify for the agenda. (a) The issue is widespread and has practical relevance. (b) The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The IFRIC will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice. (c) Financial reporting would be improved through elimination of the diverse reporting methods. (d) The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process. The issue should be sufficiently narrow in scope to be capable of interpretation, but not so narrow that it is

(Continues)

ABACUS

TABLE A3

CONTINUED

Year and source	Agenda criteria
2013, IASB and IFRS IC <i>Due Process Handbook</i> (paras 5.16–5.17)	<p>not cost-effective for the IFRIC and its constituents to undertake the due process associated with an Interpretation.</p> <p>(e) It is probable that the IFRIC will be able to reach a consensus on the issue on a timely basis.</p> <p>(f) 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 IFRIC will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the IFRIC requires to complete its due process.</p> <p>All parties with an interest in financial reporting are encouraged to refer issues such as those listed in paragraph 5.14 to the Interpretations Committee when they believe that it is important that the matter is addressed by the IASB or the Interpretations Committee. The Interpretations Committee normally consults on issues that are referred to it with national accounting standard-setting bodies and regional bodies involved with accounting standard-setting. The Interpretations Committee should address issues:</p> <p>(a) that have widespread effect and have, or are expected to have, a material effect on those affected;</p> <p>(b) where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and</p> <p>(c) that can be resolved efficiently within the confines of existing IFRSs and the Conceptual Framework for Financial Reporting.</p> <p>The issue should be sufficiently narrow in scope that it can be addressed in an efficient manner by the Interpretations Committee, but not so narrow that it is not cost-effective for the Interpretations Committee and interested parties to undertake the due process that would be required when making changes to IFRSs.</p>
2020, IASB and IFRS IC <i>Due Process Handbook</i> (para. 5.16)	<p>The Interpretations Committee decides a standard-setting project should be added to the work plan, either by recommending that the Board develop a narrow-scope amendment or by deciding to develop an IFRIC Interpretation, when all of the following criteria are met:</p> <p>(a) the matter has widespread effect and has, or is expected to have, a material effect on those affected;</p> <p>(b) it is necessary to add or change requirements in IFRS Standards to improve financial reporting—that is, the principles and requirements in the Standards do not provide an adequate basis for an entity to determine the required accounting;</p> <p>(c) the matter can be resolved efficiently within the confines of the existing Standards and the Conceptual Framework; and</p> <p>(d) the matter is sufficiently narrow in scope that the Board or the Interpretations Committee can address it in an efficient manner, but not so narrow that it is not cost-effective for the Board or the Interpretations Committee and stakeholders to undertake the due process required to change a Standard.</p>

The 2007 IFRIC *Due Process Handbook* is the first public document setting out agenda criteria for the Interpretation Committee.

IFRS AGENDA DECISIONS

TABLE A4

STATUS OF THE AGENDA DECISIONS

Year and source	Status of the agenda decisions
2007, IFRIC <i>Due Process Handbook</i> (paras 25–26)	<p>A consultative period applies to issues that are not added to the agenda. The draft reason for not adding an item to the agenda is published in IFRIC Update and electronically on the IASB Website with a comment period of not less than 30 days. The comments received are placed on the public record, unless confidentiality is specifically requested by the commentator (supported by good reason such as commercial confidence), and form part of the deliberation that takes place at the next available IFRIC meeting. At that meeting the IFRIC decides whether to add the issue to its agenda.</p> <p>A simple majority of IFRIC members present at the meeting can agree to add any issue to the IFRIC agenda. The reasons for not adding an item to the IFRIC agenda are posted on the IASB Website as a historical record of decisions taken. That record is not updated as standards are amended and does not form part of IFRSs.</p>
2013, IASB and IFRS IC <i>Due Process Handbook</i> (para. 5.22)	<p>If the Interpretations Committee does not plan to add an item to its work programme it publishes this as a tentative rejection notice in the IFRIC Update and on the IFRS Foundation website and requests comments on the matter. The comment period for rejection notices is normally at least 60 days. After considering those comments the Interpretations Committee will either confirm its decision and issue a rejection notice, add the issue to its work programme or refer the matter to the IASB. Rejection notices do not have the authority of IFRSs and they will therefore not provide mandatory requirements but they should be seen as helpful, informative and persuasive. The IASB is not asked to ratify rejection notices.</p>
2020, IASB and IFRS IC <i>Due Process Handbook</i> (para 8.3–8.4–8.5)	<p>An agenda decision explains why a standard-setting project has not been added to the work plan and, in many cases, includes explanatory material. The objective of including such explanatory material is to improve the consistency of application of IFRS Standards. An agenda decision typically includes explanatory material when the reason for not adding a standard-setting project to the work plan is the Interpretations Committee's conclusion that the principles and requirements in the Standards provide an adequate basis or an entity to determine the required accounting. Explanatory material included as part of a tentative agenda decision is subject to comment.</p> <p>Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.</p> <p>Explanatory material derives its authority from the Standards themselves. Accordingly, an entity is required to apply the applicable IFRS Standard(s), reflecting the explanatory material in an agenda decision (subject to it having sufficient time to implement that accounting—see paragraph 8.6).</p>

TABLE A5

CODING FRAME: CATEGORIES

Category	Subcategories	Details	Purpose
Date		AD issue date	RQ1–RQ2
Mentioned standards			AD detailed description
Final decision	(i) Final decision (ii) Referred to the IASB (iii) Maintenance decision (future guidance, editorial corrections, referred to the educational team)		Defining AD final dataset
Implementation guidance	(i) Lack of guidance (ii) Partial guidance (iii) Full guidance	Examples within the text	RQ1
AD length		No. of words (excluding the title)	RQ2
Presence of expressions mentioning the clarity of IFRS		Examples within the text	RQ2
Reasons for not adding the issue to the IC’s agenda	(i) Relevance (ii) Diversity in practice (current or expected) (iii) Features of the issue (e.g., narrow, broad, not enabling an efficient resolution)	IFRS Foundation (2016), paras 5.16–17 (relevance) para. 5.16a (diversity) para. 5.16b (features) paras 16c and 17	AD detailed description

The table displays the coding frame utilized for the analysis of ADs, specifying the categories employed (*Categories*), the subcategories they are structured into (*Subcategories*), their description (*Details*), and their reference to the research questions (*Purpose*).

TABLE A6

EXAMPLE OF AD CODING

Categories	Examples
AD text	<p><i>IAS 18 Revenue (January 2010): Receipt of a dividend of equity instrument</i></p> <p>The IFRIC received a request for guidance on the recognition as revenue of a dividend in the financial statements of an investor when the dividend is in the form of the investee's own equity instruments.</p> <p>The IFRIC noted that current IFRSs provide guidance on when revenue arising from dividends shall be recognised. The IFRIC noted that when all ordinary shareholders are issued a dividend of an investee's own equity instruments on a pro-rata basis there is no change in the financial position or economic interest of any of the investors. In this situation, in accordance with paragraph 29(a) of IAS 18, the dividend is not recognised as revenue because it is not probable that</p> <p>there is an economic benefit associated with the transaction that will flow to the investor.</p> <p>The IFRIC concluded that any guidance it could provide would be in the form of application guidance. Therefore, the IFRIC decided not to add this issue to its agenda.</p>
Date	January 2010
Accounting standards	IAS 18
Final decision	Final decision
Type of guidance	Full guidance (‘the dividend is not recognised as revenue’)
Word count	158 words
Clarity expressions	No
Reasons	No explicit reference to agenda criteria (‘any guidance it could provide would be in the form of application guidance’)