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Dear Tom

### **Due Process of the International Financial Reporting Interpretations Committee Draft Handbook**

Thank you for the opportunity to comment on the Due Process of the International Financial Reporting Interpretations Committee Draft Handbook.

Our comments have been prepared in consultation with members through our Asia-Pacific Financial Reporting Advisory Group (APFRAG) which is a Board Committee representing a regional perspective from South-East Asia, Oceania and our Financial Reporting and Governance Centre of Excellence.

CPA Australia is generally supportive of the provisions of the [proposed] IFRIC Due Process Handbook (IFRIC Handbook). However, we consider that further improvements can be made to the provisions:

- within Stage 2 Agenda Committee and new agenda items (paragraphs 22 to 31); and
- elsewhere.

Our detailed comments to your questions, supplemented by some comments on other matters raised by our Members are attached to this letter.

Should you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at [mark.shying@cpaaustralia.com.au](mailto:mark.shying@cpaaustralia.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to be "GR", with a small dot above the "i".

**Geoff Rankin FCPA**  
Chief Executive Officer

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## Question 1 - Agenda Committee

*The Agenda Committee assists the IASB staff in presenting issues to the IFRIC so that the IFRIC can decide whether to add an issue to its agenda (paragraph 23). The Agenda Committee is not a decision-making body and does not meet in public (paragraph 26). The Agenda Committee reports to the IFRIC at its regular meetings on the issues the Agenda Committee considered and the Agenda Committee's recommendation on each issue (paragraph 27).*

*Do you agree with the Agenda Committee process described in paragraphs 23-27? If not, what changes do you propose, and why?*

CPA Australia considers that some of the Agenda Committee processes should be further improved.

We understand the role of the Agenda Committee and that it is not a decision-making body. Nonetheless, we would expect the [proposed] IFRIC Handbook to require greater transparency of, and discipline around the process required of the Agenda Committee when making recommendations to IFRIC.

- *Transparency required of the Agenda Committee.* We are strongly of the view that the [proposed] IFRIC Handbook require the meetings of the Agenda Committee be held in public - as we consider transparency of process a fundamental element of the standard setting process.
- *Agreement required of the Agenda Committee.* We consider that the provisions of the [proposed] IFRIC Handbook should articulate details of the voting and quorum required of the Agenda Committee when making a recommendation. Paragraph 22 comments the IFRIC Agenda Committee consists, at a minimum, of the Chairman and four IFRIC members selected by the Chairman. However, the provisions of the [proposed] IFRIC Handbook are silent on what constitutes a quorum of members able to consider the making of recommendations on an issue for addition to the IFRIC agenda (or a recommendation on an issue to not be added to the agenda of IFRIC) and the majority required of the Agenda Committee members to make a recommendation (it is not immediately clear if majority agreement is required). Should the Trustees decide not to require such quorum or voting requirements for the Agenda Committee we think the provisions of the [proposed] IFRIC Handbook should make that explicit.

*Source of suggested agenda items.* We suggest [proposed] paragraph 23 be amended by replacing "source" with "name of the submitter". Paragraph 23 comments the source of a suggested agenda item is not revealed to the Agenda Committee or others. We find this requirement problematic - as we do not think of source as being restricted to the name of the submitter of the suggested agenda item. For example, we consider a submitter might well have to provide very specific information about the peculiarities of the operation of their industry in a particular country to meet the criteria articulated in paragraph 28 (for example, the operations of the Australian electricity market, as it is based on a different set of fundamental principles to those upon which the European electricity market operates). We think provision of this information might sometimes reveal to the Agenda Committee the source of the suggested agenda item (and therefore not be consistent with paragraph 23), yet the absence of that information may result in suboptimal recommendations. Further, we understand that there will be occasions when a national standard setter presents to a suggested agenda item before the Agenda Committee - at the very least the Agenda Committee will be knowledgeable of the country of origin of the suggested agenda item.

*Agenda Committee does not decide which issues should be added to the IFRIC agenda. We suggest the [proposed] paragraph 24 second sentence would be improved by the inclusion of the words "or not be added" immediately preceding "to the IFRIC agenda."*

## **Question 2 - Agenda criteria**

*The IFRIC assesses proposed agenda items against the criteria listed in paragraph 28. For inclusion in the agenda an issues does not have to satisfy all the criteria.*

*Do you agree with the agenda criteria listed in paragraph 28? If not, please specify the criteria you would add, alter or delete, and explain why.*

CPA Australia agrees with the agenda criteria listed in paragraph 28, subject to clarification that the criterion "occurrence of significantly divergent practice" can be satisfied when the occurrence of the practice is only observable within one country. Should the Trustees decide that this criterion can only be satisfied by the practice occurring across countries then we suggest that paragraph 28(b) state this.

## **Question 3 - Consultation regarding issues not added to the IFRIC agenda**

*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 about 30 days.*

*Do you agree with the consultative process for issues that are not added to the IFRIC agenda? If not, what changes do you propose, and why?*

CPA Australia agrees with the consultative process for issues that are not added to the IFRIC agenda subject to the [proposed] IFRIC Handbook making an explicit statement that details the voting and quorum required of the Agenda Committee (or should the Trustees decide not to require such quorum or voting requirements for the Agenda Committee we think the provisions of the [proposed] IFRIC Handbook should make that explicit).

## **Question 4 - Relationship with national standard-setters and interpretative groups**

*The IFRIC's relationship with national standard-setters (NSSs) and interpretative groups (NIGs) is described in paragraphs 54 and 55.*

(a) *Do you agree that NSSs and NIGs should be encouraged to refer interpretative issues to the IFRIC? If not, why not?*

CPA Australia agrees that NSSs and NIGs should be encouraged to refer interpretative issues to the IFRIC.

(b) *Do you agree that the IFRIC should not consider local interpretations and comment on whether they are either consistent or inconsistent with IFRSs? If you disagree, please explain why.*

CPA Australia disagrees with the proposal that IFRIC should not consider local interpretations and comment on whether they are either consistent or inconsistent with IFRSs. Our reasons are those articulated in our submission dated 26 July 2005 to the IFRIC - Review of Operations: Consultative Document and are repeated here.

In our view, all final Interpretations that purport to interpret IFRSs should have, as a minimum, negative assurance from the IFRIC. Our reasons are as follows.

First, the application of IFRSs globally will be damaged if "domestic" interpretations are permitted to proliferate. In our view, there will be very few issues which are limited to a single jurisdiction. It follows that the need for domestic Interpretations will be minimal and, consequently, the IFRIC workload will not be onerous. When we consider the domestic IFRSs Interpretations issues in our region, we wonder how many of the issues addressed are limited to the jurisdiction issuing that interpretation. Domestic Interpretations having to have clearance from the IFRIC to become an authorised part of IFRSs will have the effect of discouraging home-grown Interpretations and more clearly feed into the hierarchy of standards. In this way, the IFRIC is also monitoring the activities of other standard-setters and their interpretative bodies.

Further, we are concerned that domestic interpretations will tend to reinforce the domestic practices existing prior to the adoption of IFRSs. An effective transition to IFRS requires acceptance that the financial reporting landscape has changed and that old ways of thinking may no longer apply. The provision of negative clearance provides the IFRIC with the opportunity to ensure that IFRS are properly interpreted, and, where necessary, to provide a link to the IASB's Education Directorate to assist the relevant interpretative bodies in developing a deeper understanding of the impact of IFRSs.

Third, we do not support domestic interpretations being developed where the IFRIC considers that the underpinning IFRS is clear. If there is a query within a local jurisdiction as to the application of a standard, the reason for the problem should be made clear when the IFRIC is first consulted. If the issue is simply one of local understanding, then it is the responsibility of the domestic standard-setter or interpretative body to ensure that education appropriate for the jurisdiction is provided and that extra guidance which may conflict with IFRS is not issued.

Finally, a common request for a domestic interpretation may be to address an interpretative issue where parties such as preparers, auditors and regulators are in dispute. Principles-based standards require all parties involved in preparing, auditing, using or regulating financial statements to take a principles-based approach to reporting. Providing additional interpretations will not address the fundamental problem of the avoidance of adopting a principles-based approach (whether through lack of understanding or a desire to devolve decision making) to a standard-setter.

## **Other matters**

*Nomenclature.* CPA Australia suggests that the terms "national standard setters" and "national interpretative groups" be replaced with "national accounting standard setters" and "interpretative bodies of accounting standards". We have noted the use of the terms "national standard setters" and "national interpretative groups" in describing the relationships entered into by IFRIC. We have assumed that in using these terms the [proposed] IFRIC Handbook is not limiting its relationships to those with liaison standard-setters and their interpretative bodies.

*Quorum.* Paragraph 33 states "The quorum is reduced to eight voting members for a maximum of three meetings from a vacancy occurring.". CPA Australia would be concerned if, at some time in the future, the Trustees delayed acting speedily to fill expected vacancies because paragraph 33 obviates the need for urgent action. Accordingly, we suggest the inclusion of the words ", other than a vacancy arising at the end of a member's term" to immediately follow the sentence identified above.

*Distribution of IFRIC agenda papers.* We suggest that paragraph 40 require IFRIC agenda papers to be distributed to all national accounting standard-setters and their interpretative bodies.