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19 September 2006

Mr. Thomas Seidenstein
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Email: ifricdueprocess@iasb.org

Dear Tom,

Re: Draft Due Process Handbook For The IFRIC

Grant Thornton International supports the work of the International Financial Reporting Interpretations Committee (IFRIC). We welcome the opportunity to comment on the International Accounting Standards Committee Foundation's (IASCF) *Draft Due Process Handbook for the IFRIC*. Grant Thornton International believes that transparency of the IFRIC process and clarity of Interpretations are the key matters that IFRIC should seek to achieve.

As we have submitted to you previously¹, in our opinion, avoiding the emergence of other interpretative bodies, which may result in the development of a lattice work of interpretations and quasi-interpretations, is fundamental to the success of International GAAP in a principles based framework. IFRIC needs to establish its credibility as the single official international interpretative body for IFRS. We consider that a transparent and robust due process for consideration of issues submitted to IFRIC will greatly enhance the credibility of IFRIC's work.

We also consider that, notwithstanding that the issues and the standards themselves are often complex, for an Interpretation to be effective, it needs to be clearly worded. We consider that straightforward language that states the issue and the consensus simply together with appropriate illustrative examples would go a long way to bringing credibility to IFRIC's work. IFRIC Interpretations are being used in an environment where they are needed to be understood by a very wide constituency in developed and developing economies and by people very familiar with technical accounting issues to those not at all so. This can only be achieved with the production of high quality, timely and clearly worded Interpretations. We also believe that having staff dedicated only to the work of the IFRIC could be a means of achieving this.

¹ In our letter dated 31 July 2005 on *IFRIC – Review of Operations – Consultative Document*.

Our specific comments to the Invitation to Comment are as follows:

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?

In general, we agree with the process described in paragraphs 23 to 27.

However, paragraph 22 sets out the selection of the Agenda Committee and states that this consists, “*at a minimum*” the Chairman and four IFRIC members. The members of the Agenda Committee are “*selected*” by the Chairman and have two-year terms on the Agenda Committee.

Given that the Agenda Committee plays a significant role in recommending issues to IFRIC for consideration, we consider that it would be more transparent if the following issues were clarified in the proposed *Due Process Handbook*:

- the criteria used by the Chairman to select and to renew members of the Agenda Committee; and
- the minimum number of Agenda Committee members required to be at a meeting to consider agenda issues.

In addition, we consider that, to the greatest extent possible, Agenda Committee members should include members from different backgrounds and representing different regions. To this extent, we recommend that the Agenda Committee membership include no more than three Big Four members at anyone time to avoid the criticisms that the committee is captured by the Big Four. We further recommend that the agenda committee members include representatives from other than the Big Four IFRIC members. We consider that careful consideration of the composition of Agenda Committee membership will add to the credibility of IFRIC.

Paragraph 23 states that the source of a suggested agenda item is not revealed to the Agenda Committee or to others. In general, we agree that the source of a suggested agenda item should not be revealed to ensure that issues are evaluated based on their merits. Notwithstanding this, there may be issues for which the source may be evident to a particular Agenda Committee or IFRIC member and for which the member has a conflict of interest in the matter, for instance, where a matter is submitted by an audit client of the Agenda Committee or IFRIC member and the member is aware of such a submission. In addition, where an issue is raised by an Agenda Committee member, an IFRIC member or an observer outside IFRIC meetings direct to staff, for

transparency and consistency with matters raised by those persons at IFRIC meetings, we consider that the source should be revealed to the others. This is particularly appropriate if IFRIC members and observers are to the primary source of identifying issues for consideration by IFRIC². To deal with such matters, we consider that the IFRIC Due Process Handbook should contain some basic procedures to deal with internally raised issues and conflicts of interest.

In paragraph 26, it is stated that the Agenda Committee will conduct its business in meetings and may use the same means of attendance that are open to IFRIC meetings. We consider that it may be useful to also state whether there is a fixed number of meetings scheduled for the Agenda Committee or, alternatively, the frequency of such meetings.

In paragraph 27, it is stated that the Agenda Committee reports to the IFRIC at its regular meetings on “*the issues the Agenda Committee considered for addition to the IFRIC’s agenda and the Agenda Committee’s recommendation on each issue*”. It is not clear whether the words “*each issue*” refer to those recommended for addition to IFRIC’s agenda only or if the reports to IFRIC include all issues sent to IFRIC from all sources (ie. both those recommended for addition to the IFRIC agenda and those recommended for rejection). We suggest that this be clarified to ensure that it refers to the latter.

Throughout paragraphs 20 and 22 to 27, various references are made to the role of the IASB staff and the Agenda Committee in relation to issues that are sent to IFRIC. We consider that role of staff and the role of the Agenda Committee and their respective responsibilities need to be more clearly delineated. Paragraph 20 states that IASB staff considers whether the item meets the agenda criteria and subsequently assesses the issue and provides analysis and recommendations to the IFRIC. Paragraph 23 states that the Agenda Committee “*assists the IASB staff in presenting the issues to the IFRIC so that the IFRIC can decide whether to add an issue to its agenda*”. However, paragraph 24 states that the Agenda Committee “*may recommend an issue for addition to the IFRIC agenda...The Committee’s role is limited to the presentation of analysis and recommendations to the IFRIC*”. In paragraph 25, it is further stated that in determining whether to recommend that an issue be included on the IFRIC agenda, the Agenda Committee considers the criteria set out in paragraph 28. It is unclear from these paragraphs what the responsibilities of IASB staff and the Agenda Committee are in relation to analyzing issues, determining the recommendation and presenting issues to IFRIC. In addition, there appears to be duplication of work between IASB staff and the Agenda Committee in determining if an issue meets the agenda criteria.

We believe that all matters sent to IFRIC should go before the Agenda Committee for consideration. The IASB staff should assist the Agenda Committee, rather than the reverse, through analysis of the issues (including whether the issues meet agenda criteria), in determining the recommendations to put before IFRIC. It should be the

² Also see our comment in relation to the first sentence of paragraph 18 under Question 2 below.

role of the Agenda Committee to decide on the recommendations on each matter that is sent to IFRIC.

We also consider that meetings of the Agenda Committee, like those of the IASB and IFRIC, should be open to the public. We do not consider that the Agenda Committee being a “*non decision-making body*” is a sufficient reason for it to not meet in public. We consider that, in effect, the Agenda Committee is performing a function that would otherwise be performed by the IFRIC in public. For transparency and credibility, we consider that all meetings that are related to the international standard-setting and interpretation process should be open to the public whenever possible.

Question 2 – Agenda criteria

The IFRIC assesses proposed agenda items against the criteria listed in paragraph 28. For inclusion in the agenda an issue 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.

We agree the criteria listed in paragraph 28 for assessing proposed agenda items.

However, we consider that criterion (a), “*the issue is widespread and has practical relevance*”, should always be met before consideration of whether the issue also meets any of the other criteria listed in (b) to (f). Given IFRIC’s limited resources, it is unlikely, and undesirable, for IFRIC to consider an issue meeting any of the other criteria if the issue did not also have “*widespread and [has] practical relevance*”.

We consider that criterion (f), where issues relate to a current or planned IASB project but there is a pressing need to provide guidance sooner than would be expected from the IASB’s activities, to be particularly important. We consider that where an issue referred to IFRIC relates to a current or planned IASB project, IFRIC or IASB needs to act sooner rather than later. We do not consider it appropriate for issues to be deferred for, say a couple of years, pending completion of related IASB projects, for example, issues relating to income taxes, revenue or other projects that are planned for completion by the IASB in late 2007 or 2008 should be dealt with promptly by IFRIC rather than be deferred pending the completion of those IASB projects.

In paragraphs 18 and 19, it is stated that preparers, auditors and others with an interest in financial reporting are encouraged to refer issues to the IFRIC and that an issue may be put forward by any individual or organization. We note the omission of the role of National Standard Setters (NSSs) and National Interpretative Groups (NIGs) in this process. We consider that NSSs and NIGs to be important sources of referrals and should be specifically included in these paragraphs (notwithstanding that paragraphs 54 to 55 deal with specifically with NSSs/NIGs).

The first sentence of paragraph 18 states that “*the primary responsibility for identifying issues to be considered by the IFRIC is that of its members and observers*”. We are not clear if this relates to:

- referring issues to IFRIC for consideration (similar to issues referred to IFRIC from other sources) in which case it seems to duplicate or side-step the role of the Agenda Committee; or
- deciding on which of the issues that have been brought to it by the Agenda Committee/IASB staff should be added to the IFRIC agenda.

If IFRIC members and observers are the primary source of referrals to the IFRIC, we suggest that the Due Process Handbook clarifies whether these referrals are given preferential treatment compared to other issues sent in by other persons outside IFRIC. Otherwise, or additionally, we suggest that the sentence be clarified to reflect the second bulleted point as another responsibility of the IFRIC members.

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?

We agree the consultative process for issues that are not added to the IFRIC agenda, provided that it applies to all issues referred to IFRIC from all sources.

We consider that transparency of the criteria used by IFRIC for rejecting issues is important. Ultimately, the most important objective in the standard-setting process is to have high quality Standards. Where an issue is submitted to IFRIC for consideration, we consider that it is reasonable to assume that there is a genuine concern about the clarity of a particular aspect of the Standard or its interpretation. As such, where an issue is rejected, IFRIC should articulate clearly its reasons why an interpretation is not required.

With regard to a rejection on the grounds that IFRIC considers that the Standard is clear, we consider that IFRIC should only use such a reason when there is a very strong consensus among IFRIC members (say, no more than two dissensions) that the Standard is indeed clear. Such a statement is not appropriate if reasonable and knowledgeable commentators can be expected to reach alternative views on the proper application of IFRS clearing the circumstances at issue.

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?

(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.

- (a) We agree that NSSs and NIGs should be encouraged to refer interpretative issues to the IFRIC. We consider this to be essential in order to avoid the development of local (and possibly inconsistent) interpretations of IFRS. We consider that close working relationships with NSSs/NIGs will add to the support and acceptability of IFRIC’s work.
- (b) We agree that IFRIC should not consider local interpretations and comment on whether they are either consistent or inconsistent with IFRSs. However, where IASB staff becomes aware of issues which have given rise to local interpretations, those issues could be assessed by the Agenda Committee for possible consideration by IFRIC.

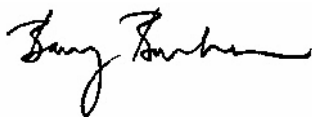
Other issues

- Presentation of alternative views in exposure drafts – We consider that IFRIC should avoid re-debating issues as much as possible and that exposure drafts should be fully utilized for presenting alternative views. To this extent, we recommend that *Stage 4* of the proposed IFRIC Due Process Handbook on *Development of a draft Interpretation* includes a paragraph to this effect.
- NSS/NIG sharing of resources – We note that the draft due process handbook (paragraph 55) only encourages NSS/NIG to refer interpretative issues to the Agenda Committee for IFRIC’s consideration. We consider that the section on *Relationship with national standard-setters and national interpretative groups* should be extended to include encouraging NSS/NIG to share resources and to develop issues and papers for IFRIC. This would provide IFRIC with additional resources, ensure issues are considered in a more timely fashion and further encourage NSS/NIS to bring issues and to handle them through the IFRIC due process through their greater involvement in the process.

- Availability of agenda papers to the public – We note in the draft IFRIC Due Process Handbook that agenda papers and proposed interpretations are not available to the public and selectively to other parties (paragraph 51). For example, it allows IFRIC members and observers to discuss, “*in general terms*”, technical issues being considered by IFRIC with “*associates and those with an interest in such matters*”. Agenda papers and proposed interpretations not released to other parties without the consent of the Chairman. We consider that agenda papers should be made available to the public. We consider that this should be at the same time that they become available to the members of the IFRIC, unless they contain confidential materials, in which case that material will be excised from what is published. We are concerned that the proposed arrangements are advantageous to those organizations that have membership on the IFRIC.

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of Global Standards, Ms April Mackenzie (april.mackenzie@gt.com or telephone +1 212 542 9789) or our Director of International Financial Reporting Standards, Mr Andrew Watchman (andrew.watchman@gtuk.com or telephone +44 (0) 870 991 2721).

Yours sincerely



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