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Mr Thomas Seidenstein
IASC Foundation
30 Cannon Street
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29 September 2006

Dear Sir

DRAFT DUE PROCESS HANDBOOK FOR THE IFRIC

We welcome the opportunity to respond on behalf of PricewaterhouseCoopers to the Trustees' invitation to comment on the above consultation paper.

Following extensive consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the draft handbook. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Our responses to each of the specific questions identified in the consultation paper are set out in the attached Annex. In this covering letter we have focused on those issues related to IFRIC's due process that we believe cause the greatest concern in the market place. Some of these were mentioned in our comment letter on the previous document *Review of IFRIC Operations* issued by the Trustees in April 2005. Because we consider these issues still to be of relevance and importance, we have raised them again here.

Transparency of due process

We believe the publication of a handbook of due process that carries the support of constituents will be an important step towards eliminating previous criticisms of a lack of transparency.

One aspect that has attracted comment is the Agenda Committee. We therefore support the proposals in the paper to enhance the process of the Committee, by encouraging attendance by other IFRIC members (subject to a maximum level) and by IFRIC observers. These should help alleviate concerns that the Committee operates as a closed group or is dominated by particular interests.

Our view is that IFRIC and the Trustees should go further in seeking to maximise the input to the Agenda Committee from IFRS practitioners, including 'hands-on' preparers – indeed this is what the market would expect. This is linked with the need to bolster the number of IFRS preparers on IFRIC itself (see also our comments on IFRIC membership below) – if this could be addressed and if one or more IFRS preparers were involved in the Agenda Committee then the criticisms should be much reduced.

We believe that, with greater transparency around the Committee in operation and greater appreciation of the important role it plays in clarifying issues and improving the papers presented to the full IFRIC, the arrangements will be supported by constituents.

Handling of 'rejections'

The process for dealing with issues rejected by the Agenda Committee for inclusion on IFRIC's agenda is causing concern among IFRIC's constituents. For example the subject has been discussed at the Standards Advisory Council (SAC) and at the EC's European Roundtable on IFRS application issues.

We believe there are three separate areas of concern: (i) the voting arrangements for rejecting an item from IFRIC's agenda; (ii) the status and authority of those rejections within the body of IFRS literature; and (iii) the impact of 'rejection' terminology in the marketplace. These are analysed in turn below.

One of the reasons for these concerns is the volume of rejections. We suggest IFRIC and the Trustees should review why the number of items rejected from the agenda is so high.

(i) Voting arrangements

Currently, issues may be rejected from the agenda by vote of a simple majority of IFRIC members (a lower threshold than the 'not more than three members voting against' required for normal issue of a draft interpretation). Hence, even though a sizeable minority of IFRIC members may believe that an issue should be taken up by IFRIC, a vote of a simple majority may result in a 'rejection'.

IFRIC members are selected for their technical abilities. When a sizeable minority of them does not believe that a standard is clear, this should be sufficient reason to add an issue to the IFRIC's agenda.

Because of the significance of rejections to preparers (as discussed further below), we consider that when IFRIC is considering the wording of the text explaining the rejection, similar voting measures should apply as for the issue of draft interpretations.

(ii) Status of rejections

The status and authority accorded to rejection notices causes confusion and should be made clearer. Currently the indication that rejection notices will not be updated for future changes implies they are not part of GAAP. Conversely, the apparent need for appropriate due process around rejections implies that they are part of GAAP. We believe it would be helpful if the IASB published an IFRS 'GAAP hierarchy', which makes clear the status of rejection notices.

The wording of rejections has in the past been very brief and usually restricted to a statement that the standard is clear. We would encourage IFRIC to make available more information to provide users with a better understanding of the reasons why an issue was rejected.

(iii) Impact of rejections in the marketplace

The fact that IFRIC decides not to take an issue onto its agenda has significance for preparers, regulators and others in the financial reporting community. In Europe, we understand that the profession, through FEE, is discussing the impact of rejections with the Committee of European Securities Regulators. We believe the Trustees should continue to monitor these discussions as they finalise the sections of the handbook related to the process for dealing with issues not added to IFRIC's agenda.

IFRIC's capacity to deal with issues

We welcome the steps already taken to increase the staff resources available to deal with IFRIC matters. We hope this now allows for greater continuity of handling of issues by the same staff from meeting to meeting - this should in turn translate into higher quality papers and shorter overall time-frames to process issues.

We understand that IFRIC has been dealing with a backlog of issues, some of which have been open for a considerable time. We note that the US equivalent body, the Emerging Issues Task Force (EITF) publishes on its website a list of open items and the time they were originally raised. The IFRIC should adopt a similar practice of publishing a list of items 'in process.'

As a further measure, targets should be established for the amount of time taken to process an issue. These should not be applied in a bureaucratic manner – rather they could be used as benchmarks for IFRIC to reconsider the approach and whether it will be able to reach a consensus in a reasonable period of time. If a particular issue has taken longer than usual, it is important to understand the reasons why (for example because the meeting materials are inadequate, because the issue is particularly complex, or because the IFRIC members are not sufficiently expert on the topic) and to take appropriate action accordingly.

In addressing the list of open issues, and in order to deal at the same time with a potential increase in the number of new issues, it may be necessary to consider holding IFRIC meetings on a more frequent basis – at least for a limited period.

The capacity to deal with issues would be further enhanced if IFRIC had a mechanism to obtain specialist input. The proportion of issues that relate to complex areas, such as financial instruments, pensions and insurance, is likely to rise in the future. Means of obtaining access to

specialist expertise include having more IFRIC members with experience in these complex areas, and having access to expert advisors that can be called upon to help the members understand the issues. One possibility might be to allow IFRIC to obtain appropriate input from the members of the IASB's working groups in areas such as financial instruments and insurance.

IFRIC membership

Our view is that the IFRIC membership still has a lack of IFRS preparers – currently only one of 14 members – and this acts as a limiting factor on the level of informed debate on issues. In filling vacancies as they arise, the Trustees should seek candidates with day-to-day IFRS experience – and should encourage preparer groups such as UNICE and the UK Hundred Group to propose appropriate senior-level candidates. We understand the Trustees recognise this as a priority.

We believe the Trustees should consider retaining the services of an executive-selection agency to advise on senior-level recruitment, not only for IFRIC but also for the Board and the Trustees. This would help the Trustees to identify potential sources of future candidates.

Working with FASB/EITF

An issue for the future is to consider how interpretations should be handled on IFRS standards that have emerged as a result of joint projects between the IASB and FASB. Where issues of interpretation arise on such standards, should those issues brought to IFRIC also be considered by the Emerging Issues Task Force (EITF) of FASB? Care will be needed to ensure there is no unnecessary duplication between the two bodies, and, more importantly, that conflicting interpretations are not issued. We encourage both bodies, IFRIC and EITF, regularly to exchange information and maintain awareness of each other's agendas. There may also be a need to have a protocol with FASB to avoid conflicts that could be created in other ways, for example by FASB Interpretations and FASB staff announcements.

We would be happy to discuss these issues further with you. If you have any questions regarding this letter, please contact John Brendon (+44 207 804 4816) or Pauline Wallace (+44 207 804 1293).

Yours faithfully

PricewaterhouseCoopers LLP

RESPONSES TO SPECIFIC QUESTIONS IN THE CONSULTATION PAPER

Question 1 - Agenda Committee

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

As noted in our covering letter, we believe further changes may be needed to the Agenda Committee process to address the perception – justified or unjustified – that the Committee is not sufficiently transparent in its activities.

The Agenda Committee does significantly benefit the operations of IFRIC – the IFRS practitioners on the Committee have invested much time in clarifying the issues raised by constituents, and guiding the staff on how to improve the papers in order to make them suitable for consideration by the IFRIC as a whole.

Nevertheless, the perception remains that the Committee is dominated by auditors and is insufficiently transparent. We therefore agree with the provision in paragraph 22 that other IFRIC members (subject to a maximum) and all IFRIC observers should be invited to attend meetings of the Committee. We further suggest that perceptions of transparency would be improved if the number of IFRS preparers on IFRIC was increased and if at least one (and preferably more) IFRS preparer was involved in the Agenda Committee.

Paragraph 20 (*'the IASB staff consider whether the item meets the agenda criteria'*) may give the impression that there is a process 'pre-sifting' of issues raised by constituents by the staff. It should be made clear that all interpretation issues raised by constituents are brought to the attention of the Agenda Committee by the staff, whether they meet the criteria or not. The Agenda Committee (and the IFRIC) needs to have a full picture of all the issues in the environment.

Question 2 – Agenda 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.

Yes. We welcome the fact that the list of criteria proposed in paragraph 28 is more comprehensive than that included in the current IFRIC Preface, in particular the focus on whether financial reporting would be *'improved through the elimination of the diverse reporting methods'*.

We note that the US EITF Operating Procedures continue to include a longer list of criteria than those proposed in this handbook, and in the interests of convergence urge the Trustees to consider whether any closer alignment of criteria – by either group - would be beneficial.

Question 3 – Consultation regarding issues not added to the IFRIC agenda

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?

No. For the reasons set out in our covering letter, we believe that the provision in paragraph 30 that *‘a simple majority of IFRIC members present at the meeting can agree to add any issue to the IFRIC agenda’* needs to be revisited in the case of decisions on the wording of rejection notices. The potential impact on companies’ financial statements of an item not being considered by IFRIC can be as great as if the item was taken on the agenda and an interpretation issued. We therefore consider that when IFRIC is considering the wording of the text explaining the rejection, similar voting measures should apply as for the issue of draft interpretations.

We also believe it would be helpful if the IASB published an IFRS ‘GAAP hierarchy’, which made clear the status of rejection notices. Currently the indication that rejection notices will not be updated for future changes implies they are not part of GAAP. Conversely, the fact that there is an apparent need for due process around rejections implies that they are part of GAAP. Their status needs to be much clearer in order to avoid potential confusion in the marketplace.

As discussed in our covering letter, the terminology and perceptions around ‘rejections’ have an impact in the marketplace. In finalising this aspect of the handbook, the Trustees should monitor the discussions between the profession, regulators and other interested parties (for example in Europe with CESR) on how issues rejected for consideration by IFRIC are treated in relation to companies’ financial statements.

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?

Yes. In today’s global environment, it will be comparatively rare that an issue raised in an individual country will have only domestic implications and as a result can be dealt with by a national standard setter/national interpretation body. NSSs and NIGs should be encouraged to bring issues to the attention of IFRIC. The recently established European Roundtable on IFRS application issues, which brings together national standard setters and other constituents from the EU Member States may prove to be a good example of a ‘filter’ for deciding which issues should properly be referred to IFRIC.

National standard setters provide an important communication channel between IASB/IFRIC and constituents such as preparers and investors. NSSs are therefore particularly well-placed to bring interpretation issues to the table and to help analyse the issues concerned.

We also welcome the recent public statement by CESR and the US SEC in their latest work plan that they will exchange information and experiences with IFRS application, and refer issues to IFRIC where appropriate.

(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.

Yes. IFRIC should not act as a vetting body for matters that should, because of their very limited application, properly be addressed by national agencies. Further, we believe that the issuance of IFRS interpretations by NSSs and NIGs should be limited to those few instances where an issue is country specific, for example because it relates to local legislation.