



The South African Institute of Chartered Accountants

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Mr Thomas Seidenstein
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Committee Foundation
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Dear Mr Seidenstein

SAICA SUBMISSION ON DUE PROCESS OF THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE DRAFT HANDBOOK

In response to your request for comments on the *Due Process of the International Financial Reporting Interpretations Committee Draft Handbook*, attached please find the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This submission includes comments from the Accounting Practices Committee of SAICA, the technical advisory body to the Accounting Practices Board of South Africa.

We would like to thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact me should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Doug Brooking (Chairman of the Accounting Practices Board)
Alex Watson (Chairperson of the Accounting Practices Committee)

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GENERAL COMMENTS

We commend the International Financial Reporting Interpretations Committee (IFRIC) on developing this draft Due Process Handbook and are supportive of the contents thereof and of this replacing the IFRIC preface. We are of the view that this draft handbook contains improvements in the IFRIC's due process and increases opportunities for constituents to comment in the Agenda Committee process. We are pleased to note that the IFRIC has taken cognisance of the many comments it received on the *IFRIC Review of Operations Consultative Document*.

We have some suggestions and comments on the draft handbook and have answered the specific questions asked by the Trustees.

SPECIFIC COMMENTS

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?

We are broadly supportive of the Agenda Committee process as it fulfils a vital role in dealing with capacity problems for the IFRIC.

We wish to draw attention to the fact that the perception of the market is that the Agenda Committee is controlled by the 'big 4 audit firms'. We therefore strongly recommend that the chairman of IFRIC should be considering members of the user constituency when selecting the committee, even if this requires paragraph 22 to be altered to increase the size of the agenda committee.

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.

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We are supportive of the agenda criteria, as listed in paragraph 28, as a basis for assessing whether an item should be added to the IFRIC agenda. Our concerns lie in the consistent application of these criteria over time, especially the following:

- Criteria (a) on “*widespread relevance*” and criteria (b) “*divergent interpretations*” emerging or existing – This is a very sensitive issue for many countries who have submitted requests for interpretation which they feel were relevant and widespread, not only in their country. However, the IFRIC had rejected it on one of these criteria, yet the IFRIC chooses to address *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*, which is very specific to one region.
- Criteria (c) on “*financial reporting would be improved by elimination of diverse reporting methods*” – As noted below in our comment on the development of a draft interpretation, it is unclear how the IFRIC would determine whether financial reporting would be improved by elimination of a reporting method or whether in fact a different interpretation should be permissible.

Where requests have been rejected against the following criteria and the IFRIC believe the IASB should address the issue, the draft handbook should set out the requirement that in such case the issue should be referred to the IASB:

- Criteria (d) on “*a narrow implementation or application issue*”.
- Criteria (e) on “*it is probable that the IFRIC will be able to reach a consensus view on a timely basis*”.

Where IFRIC identifies conflicts between the standard and the appropriate interpretation, it should be encouraged to raise the issue with the IASB for resolution. Until all IFRSs have been reviewed and reissued by the IASB, the IFRIC should be more ready to raise the issues with the IASB, and the IASB to address them.

The second last paragraph of this section states that “*The IFRIC will not add an item to its agenda if the IFRSs are clear.*” If the reported reason for rejection of an issue is that the “*IFRSs are clear*” we suggest that not more than one dissenting vote should be allowed. Whilst we understand that this raises the threshold for voting above that for the issuance of an interpretation, this relates to a reason for rejection of an issue. If the IFRIC determine that an issue does not need to be added to the agenda as “*the IFRSs are clear,*” the IFRIC should be close to unanimously agreeing as such. We believe that a matter cannot be ‘*clear*’ if there are a few dissenting views on the clarity of the matter within the IFRIC itself.

Question 3

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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 are fully supportive of such consultative process and the comment period of 30 days. We wish to emphasise that it must be 30 days from publication of the IFRIC *Update* on the website in which the reasoning for rejection is published.

Question 4

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) Yes we agree that NSSs and NIGs should be encouraged to refer interpretative issues to the IFRIC.
- (b) We agree that the IFRIC should not consider local interpretations and comment on whether they are either consistent or inconsistent with IFRSs, as this would place an excessive burden on the already overloaded agenda of the IFRIC. However we recommend that there should be a process for the IASB staff to consider local interpretations and comment on where they are inconsistent with IFRSs. Whilst we understand that this is a lower level of assurance, this would provide a process for local interpretations to be submitted to the IASB for logging and for some ratification, albeit negative clearance. This would also facilitate a process for a database of local interpretations to be made available by the IASB on its website. Such a database is of vital importance, especially to preparers.

OTHER COMMENTS

Observers

Paragraph 13 refers to the fact that “*The IFRIC also includes observers (currently from IOSCO and the European Commission)*”. Paragraph 13 states that these “*observers are expected to attend all meetings*”. It is clear that these are official permanent observers, yet there does not appear to be selection criteria for observers with such preferential treatment.

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Elimination of diverse reporting methods

While paragraph 28 states that the Agenda Committee will consider whether financial reporting would be improved through the elimination of diverse reporting methods, the draft handbook does not give guidance on this issue. It is unclear how the IFRIC would determine whether financial reporting would be improved by such elimination or whether a different interpretation should be permissible. We therefore recommend that the handbook should contain criteria for the IFRIC on how to determine when the elimination should be made, and if so, what basis should be used for such a selection, and when no elimination should be made.

IFRIC meetings

We note that there is no specific process or requirement for the number of meetings to be held by the IFRIC in a year and recommend that such a requirement be included.

Voting at meetings

We recommend that paragraph 34, which refers to the members voting in accordance with their independent views, should be cross referenced to paragraphs 38 and paragraph 45 where the number of votes required to issue a draft interpretation/final interpretation are mentioned.

Authority of the IFRIC interpretations

Paragraphs 48 – 50 fall under the heading “*Authority of IFRIC Interpretations*,” yet they do not deal with the status of IFRIC interpretations. We recommend that wording to the effect that “*IFRICs have the same status as IFRSs*,” is used.

Withdrawal of an IFRIC

When an IFRIC is withdrawn for reasons other than those stated in paragraph 50, the IFRIC must be required to give guidance on the accounting policy hierarchy for transactions that were covered in the scope of the withdrawn IFRIC, for example when the IFRIC 3 - *Emission Rights* was withdrawn.

Consolidated preface

We support the consolidation of the IFRS and IFRIC preface into one document.

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