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**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: 2 November 2006, London

**Subject: Draft Handbook on IFRIC Due Process
Review of responses (Agenda Paper 2)**

Introduction

1. The Trustees of the IASC Foundation published for public comment a consultation document Due Process of the International Financial Reporting Interpretations Committee Draft Handbook. The comment period ended on 30 September 2006 and the IASCF received 42 comment letters.
2. Questions to constituents covered four topics:
 - Question 1 – Agenda Committee
 - Question 2 – Agenda criteria
 - Question 3 – Consultation regarding issues not added to the IFRIC agenda
 - Question 4 – Relationship with national standard-setters and interpretative groups
3. Question by question, the staff present in this document the review of these 42 comment letters as well as its own comments. At each stage, the staff ask IFRIC members for their views.

4. A break down of responses by type of respondents is given below:

Standard-Setters	12
Regulators / Governmental Agencies	5
Accounting Firms	7
Accountancy Bodies	7
Preparers	9
Others	2
Total	42

(See Appendix 1 for more details)

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?

A) Review of responses

5. With one exception, respondents explicitly or implicitly support the need for an Agenda Committee. For example, the European Commission (CL # 41) states:
- We recognise that the Agenda Committee functions as a filter and support mechanism for the full IFRIC committee and can thereby increase the efficiency of the process.*
6. Nevertheless, respondents require the Agenda Committee to operate with more transparency since they regard the initial analysis of issues as being a crucial element in the whole decision making process.
7. The reading of comment letters led the staff to identify the following themes:
- Monitoring the Agenda Committee business
 - Composition of the Agenda Committee
 - Respective roles of the IASB staff and the Agenda Committee
 - Making a recommendation to the IFRIC
 - Other comments

Monitoring the Agenda Committee business

8. Sixteen respondents claim that the Agenda Committee should meet in public in order to reach full transparency of its business.

We are strongly of the view that the proposed IFRIC Handbook requires the meetings of the Agenda Committee be held in public – as we consider transparency of process a fundamental element of the standard setting process. [CPA Australia, CL # 4].

9. The sixteen respondents are the following:

CL#	Respondent
1	Australian Accounting Standards Board – Urgent Issues Group (Australia)
3	Institut der Wirtschaftsprüfer (IDW)
4	CPA Australia
5	Union of Industrial and Employer's Confederations of Europe (UNICE)
13	Grant Thornton International
15	Financial Reporting Standards Board (FRSB) and Accounting Standard Review Board (ASRB)
16	International Financial Reporting Standards Review Committee (IFRSRC) of the Korea
19	Conseil National de la Comptabilité
20	Ernst & Young
27	French Banking Federation (France)
30	Association pour la participation des entreprises françaises à l'harmonisation comptable internationale (ACTEO) and Mouvement des Entreprises de France (MEDEF) and Association Française des Entreprises Privées (AFEP) (France)
33	European Financial Reporting Advisory Group (EFRAG)
35	Mazars
37	Fédération des Experts Comptables Européens (FEE)
41	European Commission
42	BDO Global Coordination B.V.

10. Many respondents believe that more information should be published on the Agenda Committee business. For example:

The ASB wishes to put forward a further suggestion for the Handbook, which is a proposal that details should be made publicly available of which issues have been submitted to the IFRIC for consideration, when they were submitted, and what stage each issue has reached in the IFRIC's processes. Details should also be given of what, if anything, is causing a delay in the process and when a final decision is expected to be taken. This would provide greater confidence and transparency (particularly in the IFRIC Agenda Committee process, which is non-public) and help to make sure that issues are dealt with in a suitable timeframe.

[ASB, CL # 2]

The list of issues submitted to the IFRIC and their scheduling should be published on the IASB website.

We are concerned that the final decision with respect to agenda requests should effectively be taken by the IFRIC and that any prior filtering of issues should be transparent and controlled. We suggest that an “audit trail” should exist so that submissions could be monitored at each stage of the process from the reception of a submission to the final decision of the IFRIC. Reasons for excluding submissions should be clearly visible.

[Conseil National de la Comptabilité (CNC), # 19]

11. Further information is also requested by other respondents:
 - Constituents that have submitted an issue should be kept informed by IASB staff about some milestones with regard to their submissions [CL # 8]
 - The AC acknowledges in writing that an issue has been received [CL # 28]
 - Recommendations of the AC should be made public [CL # 16]
 - Significant working papers should be made publicly available [CL # 26]

Composition of the Agenda Committee

12. Many respondents are concerned about the current composition of the Agenda Committee and the lack of a clear selection process set out in the Draft Handbook. Their main comments are the following:
 - The AC should be representative of the composition of the IFRIC¹ which would normally include accountants and users with a broad geographical representation [e.g. CL # 35]. For this purpose, there may be a need to expand to six or seven members with participation by preparers [CL # 29] or to include some representation from non-IFRIC members [CL # 15];
 - Clear indication of what length and renewal terms are appropriate for its members should be given [e.g. CL # 36]. For example, the selected IFRIC members should not be able to have two consecutive terms on the AC (renewal being currently possible within a single term on the IFRIC) [CL # 35];
 - The composition of the AC is left to the Chairman's discretion, further reducing transparency [CL # 3]. The selection process should be explicitly outlined and enhanced with the following proposals:

¹ IFRIC Draft handbook paragraph 10: The members are selected for their ability to maintain an awareness of current issues as they arise and the technical ability to resolve them. They would normally include accountants in industry and public practice and users of financial statements, with a reasonably broad geographical representation. The lack of a full complement of members does not restrict the IFRIC's ability to meet.

- AC members should be selected by the IFRIC [CL # 1], or by the Trustees [CL # 5] but not solely by the Chairman;
 - Whether the decision is made by the Trustees or by the IFRIC Chairman, the Trustees should be able at least to exercise oversight before nominations are being made public in order to ensure a proper balance of backgrounds is met [CL # 30]
 - Appropriate publicity to calls for nomination or to renewals should be provided [e.g. CL # 5]
- IFRIC members should be able to attend AC meetings without any restriction [e.g. CL # 30, 29];

Respective role of the IASB staff and the Agenda Committee

13. Many respondents ask for a clarification of the respective role of the IASB staff and the Agenda Committee. Many of them are of the view that the AC should assume the leading role in presenting issues to the IFRIC. For example, the IFAC states:

The relationship between the IASB staff and the Agenda Committee, and their respective roles, needs to be clarified. Paragraph 20 states that the IASB staff considers whether an item meets the agenda criteria, assesses the issue and provides analysis and recommendations to the IFRIC. Paragraph 23 states that the role of the Agenda Committee is to assist the IASB staff in presenting issues to the IFRIC. But paragraph 24 states that the Agenda Committee may recommend an issue for addition to the IFRIC agenda, and that the Committee's role is limited to the presentation of analyses and recommendations to the IFRIC.

The role of the IASB staff and the Agenda Committee therefore appears to be the same. It is not clear who is responsible for making recommendations to the IFRIC. IFAC is of the view that the IASB staff should assess all the submissions made to the IFRIC against the criteria and provide analyses and recommendations to the Agenda Committee. The Agenda Committee should then consider the submissions and the staff analyses and recommend to the IFRIC which issues should be placed on the IFRIC agenda. [CL # 21]

14. Concerning the role of the Agenda Committee, one respondent states:

We believe that in forming a recommendation to the IFRIC about a topic, the Agenda Committee should be responsible for defining the scope of the issue to be addressed clearly. At the time the decision to add the item to its agenda is reported to IFRIC, the full IFRIC should be asked whether they agree to the scope as defined by the Agenda Committee. [CL # 28]

Making a recommendation to the IFRIC

15. As the process for reaching a recommendation to IFRIC is not defined in the Draft Handbook, some respondents suggest a quorum, a voting process and a limitation on the number of meetings before making a recommendation, as well as the process to follow when a recommendation is not reached:

An issue should not be discussed at more than one meeting of the AC. It should be brought to the full IFRIC for further discussion immediately after the AC concerned, regardless of whether the AC has arrived at a recommendation. [CL # 20]

Agenda committee needs to be accountable to IFRIC and report how and why the AC is progressing on the issues, when issues appear not to be straightforward enough for a recommendation to be prepared on a timely manner. [CL # 30]

Regardless of process, we consider that any dissenting from the recommendation should be drawn to the attention of the IFRIC as it would assist the IFRIC in making the final decision. [CL # 38]

Other comments

16. There should be a more robust discussion by the IFRIC of recommendations put forward by the Agenda Committee to challenge the views of the Agenda Committee [CL # 22 and 29]
17. Submission issues:
- Internally raised issues should be subject to the same transparent process through the Agenda Committee before being considered by the IFRIC. Paragraph 18 should make that clear [CL # 15];
 - In practice 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. The Handbook should deal with conflicts of interest and internally raised issues [CL # 13];
 - Paragraphs 23 and 55 are not consistent. According to paragraph 19, any submission should be submitted to the IFRIC Co-ordinator [CL # 21];
18. The Draft Handbook should clarify whether other IFRIC members and observers attending an AC meeting have speaking rights [CL # 15].
19. Paragraph 26: delete “on request”, ie automatically send AC papers to other IFRIC members.

B) Staff comments

[Paragraphs 20 to 32 omitted from observer notes]

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.

A) Review of responses

33. The agenda criteria are set out in paragraph 28 of the Draft Handbook:

The IFRIC assesses proposed agenda items against the following criteria. An issue does not have to satisfy all the criteria to qualify for assessment. [IFRIC Preface 27 and 29]

- (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).
- (c) Financial reporting would be improved through the elimination of the diverse reporting methods.
- (d) The issue is a narrow implementation or application issue that can be resolved efficiently within the confines of existing IFRSs.
- (e) It is probable that the IFRIC will be able to reach a consensus view on a timely basis.
- (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 the IFRSs are clear, with the result that divergent interpretations are not expected in practice. 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.

34. One general comment made by some respondents points out the need for:

- A more transparent decision process for applying the criteria and determining the outcomes, taking the form for instance of a flow chart (see appendix 1 of comment letter # 15 from the New Zealand Financial Reporting Standards Board and Accounting Standards Review Board).
- A distinction between the criteria that are related to the content of the question raised, i.e. criteria (a) to (d), and the criteria that are related to the IFRIC due process, i.e. criteria (e) and (f) [CL # 19 and 35].

35. Another general comment, made by the European Commission, is:

We agree in general, but we observe that the criteria which have to be considered when assessing agenda items are not used in a consistent way. The fact that an issue indicates significantly divergent interpretations in practice

has in some cases been sufficient reason for issuing an interpretation whereas in other cases it was not. [CL # 41]

36. The principal specific comments made by respondents on the agenda criteria are as follows:
- Many respondents are concerned that important issues may not be added to the agenda as a result of the application of criterion (e). They believe that the absence of consensus should not be presumed but should be acknowledged only after a debate within IFRIC and be addressed in paragraph 31 rather than be considered as an agenda criterion.
 - Many respondents perceive the application of criterion (f) as unsatisfactory when final conclusions of the IASB related to an item are not expected to be reached in the short term. In such a case they would prefer the IFRIC to take on the item.
 - Some respondents believe that an item should be added to the agenda as long as a question qualifies for one of the “technical” criteria ranging from (a) to (d), regardless of whether or not the criteria (e) and (f) are met.
 - Some respondents believe that the criterion (d) should also refer explicitly to the Framework.
 - Some respondents would prefer the agenda criterion (b) to be removed, arguing that IFRIC members or staff cannot ascertain the existing practice in all jurisdictions nor decide on what is expected.
 - Some respondents find the criterion (c) vague or useless and propose to drop it as it is more a general objective than a criterion.
37. Many respondents are concerned about the last sub-paragraph of paragraph 28². Some propose to locate this statement within criteria (g) and (h). Others propose to delete or clarify the sub-paragraph as it appears to duplicate some of the criteria. One respondent recommends that this wording be expanded to encompass those issues that are not taken on the agenda because “the balance of requirements of IFRSs taken as a whole support one view, with the result that diversity in practice would not be expected after clarification by the IFRIC.”

² The IFRIC will not add an item to its agenda if the IFRSs are clear, with the result that divergent interpretations are not expected in practice. 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.

38. When applying either agenda criteria (e) or (f), many respondents note that the process is not clear as to the following steps. For instance, some find the last sentence of paragraph 31 “the IFRIC may recommend that the matter be taken up by the IASB” is unclear and propose to delete the “may”.
39. One respondent (CL # 34) notes that the US EITF Operating Procedures continue to include a longer list of criteria than those proposed in the Draft Handbook, and in the interests of convergence urge the Trustees to consider whether any closer alignment of criteria – by either group - would be beneficial.
40. Some respondents request some clarification of the meaning of “widespread” and “narrow”.

B) Staff comments

[Paragraph 41 omitted from observer note]

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?

A) Review of responses

42. Many respondents point out that the status and authority accorded to wordings for rejection remain unclear, yet they tend to be applied in practice (see CL #5) and may have significant impact on financial statements.

When they are published in the IFRIC Update, “Non-Interpretations” are preceded by the statement: “The following explanations are provided for information only, and do not represent or change existing IFRS requirements”. However, the wording of the rejection is often very similar to a (de facto) Interpretation whereas their authority remains unclear. Therefore, there is a danger that these IFRIC Agenda Rejections de facto carry some degree of authority, without having undergone the necessary due process. [CL # 3]

43. Many respondents request the IFRIC to avoid stating that a standard is clear and recommend that the justification of rejection should be as short as possible, with no technical analysis and reference only to the agenda criteria (see CL # 32 for instance). They also consider that the same voting arrangement as for the issuance of Draft Interpretations should apply to decide whether or not to add an item to the IFRIC agenda (CL #34 and 35 for example) and believe that the comment period should be extended.
44. When providing supplementary accounting guidance, some respondents recommend defining a specific status for these “clarifications”, which would not be mandatory in order to leave room for judgment and which would undergo a strengthened due process, albeit simplified (see CL # 30 for example). An alternative proposal is that these clarifications could be passed to the Board and incorporated the Board’s process for non-urgent or minor amendments to Standards (see CL # 35).
45. For some respondents, it is also not clear where to draw the distinction between what would result in a voluntary change in accounting policy and what would result in restatement due to a prior period error.

46. For others, the Trustees should keep on monitoring the discussions on the impact at the European level of these wordings for rejection. The FEE in consultation with CESR and UNICE is at present preparing a paper on rejection notes and their consequences, for the EC Roundtable on consistent application of IFRS within the EU.

B) Staff comments

47. [Paragraphs 47 to 62 omitted from observer note]

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) Review of responses

63. Respondents fully agree that NSSs and NIGs should be encouraged to refer interpretative issues to the IFRIC. Some respondents recommend that:
- NSSs and NIGs should be closely associated to the work of the Agenda Committee and the IFRIC, to build the necessary trust in the process (CL # 30 and # 15).
 - The IFRIC should be encouraged to use NSSs and NIGs as a key source of knowledge and of issues for consideration and the possibility of the IFRIC using the information available from them should be formalised in the Draft Handbook (CL # 29). For instance, the Agenda Committee could systematically consult the concerned NSSs and NIGs when preparing the presentation of a specific national issue to the IFRIC, to reinforce the accuracy and the relevance of the way this issue is considered (CL # 35).
 - The scope of these paragraphs should be expanded so as to include other bodies, such as regulators, who may also be issuing IFRS interpretations (CL # 20).

- NSSs and NIGs and regulators should be specifically referred to in paragraphs 18 and 19 of the Draft Handbook, i.e. in the identification of issue stage (CL # 15).
 - NSSs and NIGs should make it clear that their submissions must be sent to the IFRIC Co-ordinator for reasons of confidentiality (CL # 21) and would undergo the IFRIC due process.
64. A majority of respondents agrees that the IFRIC should not consider local interpretations and comment on whether they are either consistent or inconsistent with IFRSs.
65. However, some respondents do not agree and support a process in which the IFRIC would give negative assurance in respect of national interpretations in order to avoid the risks arising from conflicting or overlapping interpretations or for circumstances where interpretative submissions are not taken up by the IFRIC (e.g. CL # 22, 38).

B) Staff comments

[Paragraphs 66 to 67 omitted from observer note]

APPENDIX 1

List of comment letters received

Standard-Setters	CL No
Australian Accounting Standards Board – Urgent Issues Group <i>Australia</i>	1
Accounting Standards Board (ASB) <i>UK</i>	2
Canadian Accounting Standards Board <i>Canada</i>	6
German Accounting Standards Committee (DRSC) <i>Germany</i>	8 & 8A
South African Institute of Chartered Accountants (SAICA) Accounting Practice Board (APB) of South Africa and the Accounting Practices Committee (APC) of SAICA <i>South Africa</i>	9
Financial Reporting Standards Board (FRSB) <i>New Zealand</i>	15
International Financial Reporting Standards Review Committee (IFRSRC) of the Korea Accounting Standards Board (KASB) <i>Korea</i>	16
Conseil National de la Comptabilité (CNC) <i>France</i>	19
International Federation of Accountants (IFAC) Public Sector Committee	21
Norsk RegnskapsStiftelse - Norwegian Accounting Standards Board <i>Norway</i>	24
Dutch Accounting Standards Board (DASB) <i>Netherlands</i>	25
Malaysian Accounting Standards Board (MASB) <i>Malaysia</i>	40
Regulators / Governmental Agencies	CL No
Council on Corporate Disclosure and Governance (CCDG)	10
The Committee of European Securities Regulators (CESR-Fin)	31
International Organization of Securities Commissions (IOSCO)	32
European Financial Reporting Advisory Group (EFRAG)	33
European Commission	41

Accounting Firms	CL No
Grant Thornton International	13
Ernst & Young (International)	20
Deloitte Touche Tohmatsu (International)	28
KPMG (International)	29
PricewaterhouseCoopers (International)	34
Mazars <i>France</i>	35
BDO Global Coordination B.V	42

Accountancy Bodies	CL No
Institut der Wirtschaftsprüfer (IDW) <i>Germany</i>	3
CPA Australia <i>Australia</i>	4
Association of Chartered Certified Accountants (ACCA) <i>UK</i>	17
Föreningen Auktoriserade Revisorer FAR <i>Sweden</i>	22
Institute of Chartered Accountants in England & Wales (ICAEW) <i>UK</i>	23
Fédération des Experts Comptables Européens (FEE)	37
Hong Kong Institute of Certified Public Accountants (Hong Kong)	38

Preparers	CL No
<u>Representative Bodies:</u>	
Union of Industrial and Employer's Confederations of Europe (UNICE)	5
Group of 100 <i>Australia</i>	12
French Banking Federation (France)	27
Association pour la participation des entreprises françaises à l'harmonisation comptable internationale (ACTEO) and Mouvement des Entreprises de France (MEDEF) and Association Française des Entreprises Privées (AFEP) <i>France</i>	30
Federation of Swedish Industries <i>Sweden</i>	36

Company	
Anglo Platinum Limited	7

Rio Tinto UK	11
UBS AG <i>Switzerland</i>	14
Allianz <i>Germany</i>	18
Others	CL No
Committee of European Banking Supervisors (CEBS)	26
Unione Nazionale Imprese di Recupero Crediti e Informazioni Commerciali (UNIREC)	39

APPENDIX 2

Information currently published on the Agenda Committee business

Some limited information is already given at IFRIC meetings:

- Agenda papers and minutes of Agenda Committee meetings are distributed to all IFRIC members³ so that they are informed of its business and can decide whether to attend the Agenda Committee meeting;
- A list of items under consideration by the Agenda Committee has been published in the IFRIC *Update* since the 2006 July IFRIC *Update* (see below);
- Oral comments on the minutes of the Agenda Committee meetings and oral update of the Agenda Committee business have been provided at IFRIC meeting open sessions since July 2006.

Update on Agenda Committee discussions

The staff reported on issues with the Agenda Committee that had not yet reached the IFRIC agenda. Items that had been discussed at the July Agenda Committee meeting were:

- The classification of ‘SIM’ cards for mobile phones;
- Accounting for catalogues and other marketing costs; and
- The testing of hedge effectiveness on a cumulative basis.

In addition, the following items had been brought to the Agenda Committee at an earlier date but were not yet ready to be presented to the IFRIC, either because they required further staff research or because they were awaiting resolution of a related item:

- Demergers and other ‘in specie’ distributions;
- Hedging of future cash flows by an option; and
- Hedging a net investment.

³ The Draft IFRIC Handbook could be amended to reflect this practice, i.e. to delete “on request” in paragraph 26

APPENDIX 3

Comparison between the EITF factors and the IFRIC criteria

[Omitted from observer note]