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Mr Tom Seidenstein
Director of Operations
IASC Foundation
30 Cannon Street

Berlin, 6 September 2006

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Dear Mr Seidenstein

Re: Comment Letter on the IFRIC Draft Due Process Handbook

The AIC appreciates the opportunity to comment on the IFRIC Draft Due Process Handbook and fully endorses the IFRIC's decision to review its processes and operations. We support many of the IFRIC's views such as the IFRIC's explicit dedication to give principle based guidance and the IFRIC's decision not to sacrifice the due process for the sake of being capable to act as an urgent issues task force. Furthermore, we basically agree with the set of criteria that are referred to by the Agenda Committee and the IFRIC when considering if an issue should be taken on the IFRIC's agenda.

However, we are concerned about several issues in the IFRIC Draft Handbook that refer to the following issues:

- Intransparency of the work of the IFRIC Agenda Committee
- Need for specification of some agenda criteria
- Concept, structure, substance and status (authoritative or not binding guidance) of the published agenda rejections
- IFRIC's reservations against a closer cooperation with national interpretative groups and especially against giving negative clearance of domestic interpretations.
- Insufficient public availability of the IFRIC agenda papers
- Absence of a Basis for Conclusions that explains the IFRIC's decisions with regard to certain issues discussed in the Consultative Document published in April 2005



The AIC wishes to stress that its main concern relates to the concept and status of agenda rejections. Because of the growing confusion among the constituency with regard to the authoritativeness of agenda rejections clarity on this issue is urgently needed. Therefore, it should be made clear in the IFRIC Handbook that the agenda rejections are undoubtedly non-binding in any circumstances. However, if the agenda rejections are supposed to have some kind of authoritativeness this would have substantial consequences that should be addressed in the IFRIC Handbook and implemented accordingly. A much more preferable solution, though, would be that the IFRIC publishes statements on the application of IFRSs exclusively in the form of Interpretations (after having gone through a full due process). This would avoid that agenda rejections might be perceived as short-cut interpretations.

Our responses to the questions raised in the Invitation to Comment section of the IFRIC Draft Due Process Handbook as well as remarks on two other issues are set out below.

If you would like further clarification of the issues set out in this comment letter, please do not hesitate to contact me.

With best regards

Dr. Stefan Schreiber
AIC, Chairman



Comments to the Questions and other Issues

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?

While we agree with the Agenda Committee process described in paragraphs 23-27 we would suggest that the work of the Agenda Committee is made much more transparent. On the one hand, the Agenda Committee should publish all submissions received on a monthly basis. On the other hand, constituents that have submitted an issue should be kept informed by IASB staff about some milestones with regard to their submissions. For example, a submitter could be informed by e-mail about the beginning of IASB staff work on the issue, about the date of the agenda committee meeting in which the issue will be discussed and about the date when the IFRIC will decide on the matter. We feel that this would be a necessary service for the constituency. We suggest that the “Communication” section of the IFRIC Draft Handbook should be amended in the way proposed.

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.

While we agree with most of the agenda criteria listed in paragraph 28 we have reservations against the use of agenda criterion e) which states that IFRIC can reject a potential agenda item if it is probable that the IFRIC will be unable to reach a consensus on a timely basis. In our view, it can hardly be judged after a brief initial discussion at an IFRIC meeting if the development of an Interpretation will be possible on a timely basis. Furthermore, such a justification for the rejection of an item is likely to be perceived as very unsatisfactory for constituents. Therefore, the AIC suggests to the IFRIC refraining from using this criterion unless in-depth discussions of an issue have revealed that a timely consensus cannot be reached. Since such a statement is already included in paragraph 31, paragraph 28 e) should be deleted.



Furthermore, we feel that the terms “widespread” in paragraph 28 a) and “narrow” in paragraph 28 d) should be specified so that constituents can more easily assess in advance if an issue meets these criteria.

Finally the AIC supports the IFRIC in being strict with regard to the application of the criteria in paragraph 28 (revised as suggested above). This should imply that it is explicitly stated in each agenda item rejection published in the IFRIC Update, which criteria have not been met. Otherwise, the process of considering a potential agenda item might be perceived as lacking transparency.

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?

The AIC appreciates the efforts of the IFRIC to establish a more structured and elaborate consultative process for issues that are not added to the IFRIC agenda. Such an approach is suitable to provide the public with useful information and refutes critics that the work of IFRIC lacks transparency. According to paragraph 26 of the Consultative Document “IFRIC – Review of Operations” published in April 2005 the merits of this consultative process are:

- (a) greater transparency and accountability for decisions made about the agenda;
- (b) providing more equitable access to IFRIC thinking about the issues rejected to those who do not attend the IFRIC public meetings;
- (c) setting an appropriate tone for constituents as to the types and level of issues which they can expect IFRIC to address; and
- (d) greater evidence of the volume of work that the IFRIC deals with aside from the issuance of interpretations.

Therefore, the AIC understands that the consultative process established in mid-2005 can be considered as an information policy instrument of the IFRIC. The experience with the published agenda rejections in the last 14 months, however, indicates that the usefulness of the provided information is outbalanced by a growing confusion among the constituency with regard to the authoritativeness of the agenda rejections. While it is undoubtedly interesting to learn about the rationale why an issue was not taken on the IFRIC agenda there is an inherent danger that the giving of information on how to apply the relevant IFRSs leads – in



the perception of the public – to informal interpretations. The intense debates currently going on (for example within EFRAG and ARC) prove that the authoritativeness of agenda rejections is an issue of great concern among the constituency. It also highlights the insufficiency of the current practice to precede the explanations of the agenda rejections with the statement that these “are provided for information only, and do not represent or change existing IFRSs requirements”. It should especially be noted that tendencies can be observed that regulators and enforcers equate the statements in the agenda rejections (on how to apply the relevant IFRSs) with the IFRSs as defined in the Preface to IFRSs.

The following examples illustrate the importance of a clear statement of the IFRIC with regard to the status of agenda rejections: In the last sentence of the explanation for the issue “IAS 17 Finance subleases of finance leases” published in June 2005 it is explicitly stated that IFRIC did not agree with the treatment that had been suggested. Despite of this explanation being labelled as “information”, does this imply that the treatment that had been suggested is not in accordance with IFRSs and therefore cannot be accepted? Consider the Non-Interpretation “IAS 39 Impairment of an Equity Security” published in June 2005 as another example: Besides that we are not convinced of the reasoning given by the IFRIC (see our comment letter on this issue dated 24 April 2006) it should be noted that the conclusion agreed upon by the IFRIC will result in a major difference to US GAAP with regard to the cost basis and period to be used. We do not believe that the IASB intended to create such a difference when incorporating “a significant or prolonged decline” in IAS 39.62 as objective evidence.

The AIC strongly believes that the lack of clarity concerning the authoritativeness of agenda rejections has quickly to be resolved by the IFRIC by applying a twofold approach: With regard to the agenda rejections already published the IFRIC should make a clear and publicly available statement that these are by no means authoritative. Furthermore, future agenda rejections should not include explanations anymore what accounting treatment is considered to be appropriate by the IFRIC. This would imply that all statements of the IFRIC on the application of IFRSs should be made in the form of Interpretations and would thus have by definition an undisputable authoritative status. Agenda rejections would then only be published if potential agenda items are rejected due to more or less formal reasons (e.g. a rejection because of an already ongoing project of the IASB that includes the submitted issue). This might lead to a greater number of IFRIC Interpretations but this would avoid the currently unsatisfactory situation of ambiguity and uncertainty.

If the IFRIC wishes to continue to publish statements on the application of IFRSs in the form of agenda rejections and takes the view that these statements have at least some kind of authoritativeness (e.g. comparable to the Implementation Guidance in some Standards) several substantial consequences should be taken into account: Agenda rejections should then not only be published on the IASB website and in the IFRIC Update but also in the



Bound Volume. As a minimum, references to the agenda rejections should be added to the affected Standards or Interpretations. This also implies that agenda rejections should be consequentially amended or withdrawn if a relevant Standard or Interpretation is changed and the statements in the agenda rejections are no longer applicable. Furthermore, negative clearance by the IASB should be considered. We would also like to emphasise the importance of a careful formulation of the agenda rejections and of giving sufficient background information so that it is not unnecessarily difficult for the public to comprehend the IFRIC's rationale. Consider the following two examples: (1) In the agenda rejection "IAS 17 Finance subleases of finance leases" (see IFRIC Update June 2005) the published information can only be considered useful if "the treatment that had been suggested" is clearly described. This, however, has not been done so that the accounting treatment which is considered unacceptable by the IFRIC remains unclear. (2) The agenda rejection on "Share Plans with Cash Alternatives at the Discretion of the Entity" (see IFRIC Update May 2006) could be more easily understood if the background information and the references to the relevant paragraphs in IFRS 2 and IAS 32 were incorporated in the agenda rejection. Although this information is included in the Information for Observers it would be much more customer-friendly if all relevant information could be found in one document, i.e. in the agenda rejection. The AIC concludes that the lack of clarity in certain agenda rejections might be avoided if the structure and substance of the agenda rejections would be generally addressed in the finalised IFRIC Handbook.

Finally, independently from the consensus eventually reached by the IFRIC and the Trustees on the issue of agenda rejections this issue should be dealt with in much more detail in the IFRIC Handbook.

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.

We agree that the IASB staff should liaise with NSSs and NIGs and that these institutions should be encouraged to refer interpretative issues to the IFRIC, but we are convinced that the cooperation between the IFRIC and the NSSs/NIGs in the development of Interpretations and Non-Interpretations should be much more intense and that this should be reflected in the



wording of the IFRIC Handbook and the new Preface. In this respect, we feel that the proposed amendment of the new joint Preface to IFRSs and Interpretations in paragraph 19 (b) would give an inappropriate signal because the explicit formulations on the cooperation between the IASB/IFRIC with NSSs/NIGs are omitted.

This cooperation should not only be intensified because of resource constraints of the IFRIC but also to avoid proliferation of sources of interpretation. To achieve this goal, it is – as already pointed out in our comment letter on the Consultative Document – still the AIC's belief that a formal negative clearance mechanism as proposed in paragraph 50 of the Consultative Paper needs to be established. The process currently favoured by the IFRIC is very ambiguous and leaves it mostly to chance if an interpretation or guidance developed by a NSS/NIG is reviewed for consistency with IFRSs or not. The reservations against negative clearance set out in paragraph 45 of the Consultative Document that this process would involve the IFRIC in forming a view without due process could be mitigated by noticing that the domestic interpretations would be subject to the due process of the NSSs/NIGs.

Other Issues

Public Availability of IFRIC Agenda Papers

In paragraph 62 of the Consultative Document the IFRIC suggested “to make available its agenda papers to the public at the same time 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 were disappointed that this suggestion is not included in the IFRIC Draft Handbook. In paragraph 51 it only says: “The IFRIC agenda papers and drafts of proposed Interpretations are not to be distributed to other parties without the consent of the Chairman”. We are aware that the Information for Observers is often quite similar to the actual IFRIC agenda papers, but we still have the following concerns/suggestions:

- If parts of the IFRIC agenda papers are just excised it can become rather difficult for the public to understand the rationale behind the remaining parts. Further explanations – without revealing the confidential content of the excised parts – would often be warranted.
- The IFRIC Handbook would be a suitable place for setting some general rules what kind of information is considered to be confidential. Otherwise it is largely left to the discretion of the project managers to decide on this matter.



- In the past, the Information for Observers was sometimes available on the IASB website just one day before the IFRIC meeting. This leaves the public observers by far not enough time to adequately prepare for the meeting. As proposed in paragraph 62 of the Consultative Document the public should be provided with the papers at the same time they become available to the IFRIC members.

Absence of a Basis for Conclusions

We believe that no issue discussed in the Consultative Document should remain unresolved and that the IFRIC should explicitly address its deliberations and the results of these discussions, taking into account the comment letters received. The current practice in the development of Interpretations to summarise in a Basis for Conclusions the rationale for the Consensus and the reasons why opposing suggestions made by constituents were not regarded as persuasive, should also be followed in the case of the IFRIC Handbook. If the IFRIC remains silent in this respect this would leave the public rather confused with regard to several issues discussed in the Consultative Document. For example, processes related to the IFRIC Agenda Committee were substantially criticised by some constituents in their comment letters on the Consultative Document. It is certainly rather unsatisfactory for these constituents to realise that none of their suggestions has found its way into the IFRIC Handbook and not receiving any explanation why.