



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



A F E P

Association Française des Entreprises Privées

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Ref: Draft Due Process Handbook for the IFRIC

ACTEO, AFEP & MEDEF welcome the opportunity to comment on the Draft Due Process Handbook for the IFRIC.

We welcome the clarity and consistency that the publication of a Due Process Handbook for the IFRIC is likely to bring into IFRIC's operations.

However we deeply regret that the Draft Handbook does not include any provision solving the concerns we had expressed last year in relation to the IFRIC's Agenda Committee. Very quick and heavy corrective action needs in our view to be taken by the Trustees if the IFRIC's operations are to be brought to the IASCF's high level standards of independence and transparency.

Moreover the practice developed over the past year of issuance of wordings for rejection has raised a whole new set of concerns which also need to be addressed in a very timely manner.

Complete analysis and recommendations are included in an appendix to this letter and detailed answers to the invitation for comment.

We remain at your disposal should you need further clarification or background information.

Yours sincerely,

Patrice MARTEAU

Le Président

Alexandre TESSIER

Le Directeur Général

Agnès LEPINAY

*La Directrice des Affaires Economiques,
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Appendix to ACTEO - AFEP - MEDEF comment letter on Draft Due Process Handbook for the IFRIC.

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?

Last year while providing comments on the IFRIC review of operations, we had already expressed why the Agenda Committee procedures were far from adequate. Since the Draft Due Process Handbook has been prepared without bringing any change in the selection of members and working procedures of the IFRIC Agenda Committee, our previous comments are still valid. The experience of one more year of IFRIC proceedings suggests also additional comments, all of which, previous and new comments, are detailed below:

i. Nomination procedures applicable to the Agenda Committee:

1. Composition of the agenda committee needs to be reformed in order to reflect all stakeholders, not remain in the hands of the auditing profession as it is at present.
2. Existing procedures show that a mandate for being an agenda committee member lasts two years (ie one year less than a mandate of IFRIC member). This suggests that Agenda Committee members could rotate at a quicker pace than IFRIC members themselves. We understand the need for continuity for IFRIC members as expressed in the Draft Handbook and believe that the continuity reached at IFRIC level is plainly sufficient for being a permanent member of the Agenda Committee. However since the IFRIC has been set up, no change in the first five years has taken place in the composition of the Agenda Committee. The present situation looks as if four international audit firms had reserved seats within both the IFRIC and the IFRIC Agenda Committee.
3. Call for applications and nominations among IFRIC members should be made public. Applicants for IFRIC membership should be invited to indicate whether they volunteer for being a permanent member of the Agenda Committee, right from the start or in the course of one of their mandates.
4. This procedure would allow the composition of the Agenda Committee to be defined or adjusted at the same time as IFRIC membership nominations are being decided by the Trustees. Hence, whether the decision is made by the Trustees themselves or by the IFRIC Chairman, the Trustees could at least exercise oversight before nominations are being made public in order to ensure that a proper balance of backgrounds is met.

ii. Agenda Committee meetings:

1. Meetings of the agenda committee need to be made public (ie including observer note, webcasting and decision summaries): at present, the Agenda Committee proceedings are in breach with the high level transparency due processes of the IASB. Recommending to the IFRIC addition or rejection of an agenda item belongs to decision-making; so does giving directions to staff as to the form and content of the analysis to be presented to the IFRIC. The extremely high percentage of recommendations made by the Agenda Committee which are adopted by the IFRIC with very little debate is a clear indicator of the very strong influence that the Agenda Committee preparatory work has on the IFRIC decision-making process.

2. All working papers used by the agenda committee need to be made available to IFRIC members at the same time as to the agenda committee members: IFRIC members should not have to request for them; they should access to them freely as they do to other IFRIC agenda papers.
3. Our understanding of the need for an Agenda Committee as it has been explained to us by representatives of the IASB is the limited time that IFRIC members can devote to the IFRIC work. Therefore, all IFRIC members should be invited to participate in the Agenda Committee proceedings if they so wish. Their input and views before a recommendation is made should have the same weight as those of the members who have committed to be permanent members of the Agenda Committee. The scope of their participation to the Agenda Committee proceedings should be left to their own will and availability (a selection of issues, of meetings, physical presence or over the phone), without any restriction. If as we suggest Agenda Committee meetings were held in public, there would be no necessity for any form of restriction.

iii. *Monitoring of the work of the IFRIC and of its agenda committee:*

1. List and description of issues need to be made public, after a short delay necessary to transform the request in an anonymous issue: it will serve as a request for spontaneous input from the public and proper follow up of the efficiency of the agenda committee and the IFRIC as a whole.
2. The agenda committee ought to have the objective of not absorbing more than one month of due process
3. Agenda committee needs to be accountable to IFRIC and report how and why the agenda committee is progressing on the issues, when issues appear not to be straightforward enough for a recommendation to be prepared in a timely manner.

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 with most of criteria listed in paragraph 28. However:

- Criterion c) in our view should be dropped. We cannot see circumstances where diverse reporting methods for similar transactions would benefit financial reporting. All the less so that IFRIC generally deals with implicit or unintended options for which no disclosure is required.
- Potential and acknowledged divergence in practice should be dealt with, on the same footing. IFRIC members or staff indeed cannot ascertain the existing practice in all jurisdictions having adopted IFRS, nor can they decide on what is expected. Reason for rejection stating that “no divergence is expected in practice” should be dropped. Other criteria should help the IFRIC decide whether the IFRIC ought to deal with the issue or drop it.
- IFRIC and the IASB in general should work on the assumption that whenever IFRIC receives an agenda item request, there is indeed some need for clarification of the standards. Standards cannot have been clear when obviously some stakeholder has been in a position of questioning their implication or applying them differently from what IFRIC or staff would at some point decide the intended implication is. We nonetheless believe that there might be a need for a distinction between interpretations and clarifications (Please see below in our answer to question 3 further analysis of this issue).

- When the IFRIC is about to conclude that an IFRS new standard or amendment will be issued and implemented in a shorter period than the IFRIC due process would require, the IFRIC should question the transition provisions that the IASB is likely to decide. Indeed IFRIC needs to have reasonable assurance that new requirements to be issued by the IASB will have to be applied retrospectively, before deciding not to take the item to its agenda. New requirements with prospective application are not likely to solve the issues raised by constituents. In those cases, the IASB should always be questioned in one of its public meetings as to what transition requirements it is likely to decide. Also, the IFRIC needs to take into account the new IASB policy whereby a standard or new amendment is not to be implemented earlier than one year after its publication.

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 the 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 not opposed to the consultation process for issues that are not added to the IFRIC agenda provided the issues raised below are solved:

- 1- Observer notes made available on every issue are a full reproduction of the IFRIC agenda papers: most tentative wordings for rejection are accepted with very little public debate, if any. It is therefore necessary for the public to have access to the whole analysis and discussion on which the decision has been made. The IFRIC update calling for comments should refer to the observer notes being available on the IASB website.
- 2- A comment period of thirty days is too short. In practice the comment period is rather 40-45 days and we believe that present practice should be set as standard comment period in the final Handbook.
- 3- Letters of comments received should indeed, as indicated in the Draft Handbook, be made public before the final decision is made. We have searched the IASB website as thoroughly as we have been able to and so far have not found any comment letter available (They are not to be found, either accompanying observer notes, or within IFRIC comment letters or within IFRIC activities or within items not taken to the agenda).
- 4- We believe that decisions made by the IFRIC:
 - a. Should be called wordings for rejection **only if and when they do not incorporate any technical content (comments on the issue or the standards which can play the role of accounting guidance)** (for example when an item is not being dealt with because of an IASB active project); wordings for rejection should be solely aimed at communicating with IFRIC's constituency the reasons for not taking an item to its agenda.
 - b. In all cases where IFRIC believes that providing supplementary accounting guidance is useful for a sound application of IFRS, although no interpretation is necessary, IFRIC's final publication ought to have some formal, official status. Indeed, the clarification which is provided may enlighten that previous accounting practices defined on the basis of the existing literature need to be improved or changed. We recommend that the publication of that additional guidance, which could be named "clarification" or simply "accounting guidance" would follow the following rules:
 - i. They should have the same level of authority as implementation guidance issued by the IASB (they are not mandatory in order to leave room for judgement, however need to be taken into account in the implementation of the standard);

- ii. Their issuance should be subject to a super qualified majority (no less than 10 out of 12 members); such a majority is necessary to ensure that a clarification only is needed, not an interpretation; if indeed there are more IFRIC members to think that IFRS can be applied differently from what a smaller majority believes, then an interpretation with full due process is necessary;
- iii. Clarifications (if and when they trigger changes in accounting practice) should always be applied retrospectively, under the provisions of IAS 8 (changes in accounting policies);
- iv. They should be issued with the same criteria in mind that the IASB applies to the publication of implementation guidance, in order to ensure that IFRS remain a set of principle based standards.

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?

We support this proposal as we believe that all interpretational matters in relation to IFRSs should be dealt with by IFRIC. However encouragement might not be efficient, if NSSs and NIGs are not convinced that referring interpretative issues to IFRIC is likely to solve the issue they are facing. Indeed, the IASB and IFRIC should be aware that the very high percentage of rejections and the lack of transparency of the IFRIC due process prior to a recommendation being presented by the Agenda Committee may appear quite discouraging for NSSs and NIGs.

To build the necessary trust in the process, NSSs and NIGs need to be closely associated to the work of the Agenda Committee or the IFRIC and be reasonably satisfied with IFRIC's ability to solve their concern in a timely manner. Otherwise they may take action on their own in order to meet the responsibilities they have been entrusted with within their jurisdiction. In some cases, those responsibilities may encompass ensuring that IFRS are applied consistently within their jurisdiction. Moreover in jurisdictions having decided to bring their set of GAAP in as close convergence to IFRS as possible, decisions may have to be made before the IFRIC process has proven successful.

(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.

Although we understand the rationale in terms of appropriate management of IFRIC's limited resources, we disagree with this position. We have been aware in the recent past of a NSS:

- submitting an issue to the IASB before issuance of a final standard
- obtaining supplementary implementation guidance before issuance of a final standard, however guidance short of fair value measurement guidance (the IASB claiming that such guidance was out of its scope or the IFRIC's)
- issuing its own non-mandatory guidance in order to help its constituents with the measurement issue
- submitting its guidance to IFRIC to obtain some form of clearance and being dismissed
- having more than one year later the IFRIC considering the issue immediately upon pressing request by one of the international audit firms
- being faced with IFRIC ready to issue a wording for rejection implying that the NSS guidance is not in conformity with IFRS... and that the standards are clear... although close to one year will have been necessary before a conclusion and an appropriate wording could be defined!!.

Once an issue is assessed as a domestic issue without enough relevance to justify an interpretation or any form of clearance, IASB and IFRIC ought to be committed to never be in a position to contradict guidance issued by a NSS or a NIG. If the issue is of narrow relevance in the first place, the issue of potential non-conformity with IFRS is no more relevant and does not require IFRIC's involvement.

Moreover, if indeed IASB and IFRIC believe that guidance issued by a NSS or a NIG is not in conformity with IFRS, they should acknowledge that IFRS are in need for at least clarification, if not an interpretation.

The above described circumstances are one of the many signs that IFRIC's decisions are heavily influenced by the auditing profession in a way which contradicts IASCF Trustees' commitment to ensure that no Committee within the IASB is dominated by a particular constituency or interest. Recommendations made in relation to the Agenda Committee (see our answer to question 1) are meant to address this anomaly. Greater diversity in IFRIC members as well (today auditors represent 50% of IFRIC membership) would also help into the right direction.

As a conclusion on the issue of NSSs and NIGs, we recommend that:

- close cooperation between NSSs/NIGs and IFRIC be encouraged in such a way that as many issues as possible can be dealt with at the IFRIC level without the IFRIC being too heavily burdened;
- NSSs/NIGs be invited to ask for clearance when they are in a position to issue some local non-mandatory guidance;
- Whenever clearance is declined, this being done case by case, the IFRIC be committed to never deal with the issue upon anybody's request but the NSS or NIG itself.

Other comments

Approval of Draft IFRICs and IFRICs

Alternative and Dissenting Views by IFRIC members: Unlike IASB members, IFRIC members are not invited to publish alternative views at the stage of an exposure draft or dissenting views at the stage of an interpretation.

We believe that exposure drafts at least should always be accompanied by alternative views. These alternative views are part of the debate on the draft interpretations and belong to the basis for conclusions. We are also in favour of dissenting views being published with the final interpretation along with the indication of the votes by individual IFRIC members in favour or against the interpretation. These information could be accompanied by the reference to the IASB meeting in which the interpretation was cleared for issuance.

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