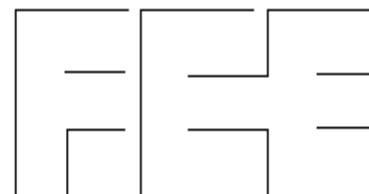


Date  
5 October 2006

Le Président

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Mr. Thomas Seidenstein  
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Dear Mr. Seidenstein,

Re: Draft Due Process Handbook for the IFRIC

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) welcomes the publication of the draft due process handbook for the IFRIC following the consultation on IFRIC Review of Operations of March 2005. We are pleased to submit the following observations to you.

## General

2. We acknowledge, that IFRIC applies a principles-based approach in providing interpretative guidance and is not seeking to create an extensive rule-oriented environment. It is necessary to strike a proper balance between principles-based standards which do not address every circumstance that may arise in practice and the consequent pressure for numerous interpretations which could still result effectively in a rules-based system. In this respect, special attention and discussion is required on the IFRIC rejection notes (see below). Whenever possible, small changes to existing standards may be preferable to extensive interpretations.
3. The differing responsibilities of IASB and IFRIC need to be carefully distinguished. The main source to address newly identified financial reporting issues (para 5) should be other IFRS and the Framework. Financial reporting issues not addressed in existing standards should be addressed by the IASB rather than by IFRIC. We urge that para 5 mention the hierarchy of IAS 8 para 11 as a source.
4. The EC has established the EC Roundtable on consistent application of IFRS in the EU which is intended to provide a platform for discussion and act as a filter for issues to pass on to IFRIC. In doing so, it clearly recognises that IFRIC is the only interpretation body of IFRS. FEE has always supported the view that IFRIC should be the only body that issues general interpretations on IFRS.
5. The commentary on membership (para 10 to 16) do not refer to industry expertise for industry specific issues. The section should either refer to the industry advisory groups or require a proper industry expertise representation in IFRIC (for example financial instruments, insurance, etc.)

## 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?**

6. "The IFRIC Agenda Committee consists, at the minimum, of the Chairman and four members selected by the Chairman." It is very important that the committee is properly representative of all financial reporting stakeholders and we believe that a requirement for its composition should be included. The IASCF should agree the composition of the Agenda Committee to ensure a balanced composition of the committee.
7. We are not clear how IASB staff and the Agenda Committee resolve any differences of opinion between them before they present a recommendation to IFRIC. This aspect could be addressed in the Handbook.
8. "It is not a decision-making body and does not meet in public." It is important that the meetings of the IFRIC Agenda Committee are open to the public and to make observer notes available, in order to achieve transparency of the Agenda Committee's proceedings.
9. Para 26 indicates that "The papers of the Agenda Committee meetings are available to any IFRIC member on request". In our opinion, papers of the Agenda Committee meetings should be made available to each IFRIC member as a matter of course in order to ensure the transparency of the process.
10. There is a need to be more transparent on the status of the issues raised with IFRIC: for each issue, it must be clear at what stage of the process it is within IFRIC and how much additional time is expected to be needed to finalise the issue. It would be helpful if IFRIC publishes details of all issues submitted for consideration and the related progress on the matters in the decision-making process ("audit trail"). This would include issues rejected by the staff before being addressed by the Agenda Committee. All matters raised with IFRIC should be publicly known and described in a balanced and neutral way. Para 27 seems to imply that the Agenda Committee may have a filter function and decides by itself not to address issues, which would undermine the transparency of the process. Financial reporting issues submitted to IFRIC have normally been discussed in depth by the parties involved beforehand. This implies a need for clearance of all issues by discussion within IFRIC itself, rather than rejection at staff or Agenda Committee level.

## 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.**

11. Para 28 a) indicates that an issue has to be widespread and be of practical relevance. Clarification is needed as to the meaning of the word "widespread" (relevant in several countries, important to a major company?). Equally the term "narrow" in para 28 d) needs further clarification.

12. Para 28 e) states as a criterion that it is probable that the IFRIC will be able to reach a consensus view on a timely basis. This may constitute a danger that important but controversial issues are not added to the agenda. The due process should in such a situation require that issues for this reason not added to the IFRIC agenda are submitted to the IASB. This issue seems not to be covered by para 31. Moreover, it would be helpful to clarify what is meant by a consensus view: would a reduction of the number of possible treatments also qualify as a consensus view or should there only be one accounting treatment?
13. Paragraph 28 (f) states as a criterion that the issue relates to a current or planned IASB project and there is a pressing need to provide guidance sooner than would be expected from IASB activities. Furthermore paragraph 28 states that "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." Some projects may benefit from IFRIC intervention where in large projects it takes too long for the IASB to reach a conclusion on specific issues. Issues need to be clarified before finalisation of the project. However the border needs to be carefully drawn between standard setting and issuing interpretations.
14. The second part of para 28 under f) could usefully be transferred to two further criteria g) and h).
15. The draft due process handbook for the IFRIC seems not to address the situation of conflicts between two standards and what role IASB and IFRIC respectively have to play in such situations.

### **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?**

16. The IFRIC rejection notes – although not officially part of IFRS – are likely to have a significant impact on the consistent application of IFRS as long as preparers, auditors and regulators are prepared to follow them. They help to clarify the meaning of part of a standard or the way certain provisions need to be interpreted or applied, in the same way as illustrative examples and application guidance that are appended to accounting standards. IFRIC rejections have been an important source of guidance in practice. Rejection notes are not part of IFRSs and as such not endorsed by the EC.
17. Rejection notes need to be subject to a sufficiently robust due process within IFRIC and the IASB. We are of the opinion that the current due process needs to be enhanced. Rejection notes – if needed with the exception of situations e) and f) in paragraph 28 – need to be subject to the same due process as "normal" interpretations: i.e. qualified majority instead of simple majority ("no more than three members present at the meeting have voted against").
18. Other addition steps for approval of the proposed due process for rejection notes include:
  - Clarifying the status of rejection notes as implementation guidance;
  - IFRIC/IASB need to consider the relevant rejection notes each time a standard is changed and to indicate when a rejection note is superseded by a change in standard (or interpretation) and withdraw the rejection note;
  - Introduction of an appeal mechanism for those issues where there is demonstrable widespread interest.
  - At its discretion IFRIC can extend the comment period for rejection notes related to more complex issues to a maximum of 60 days.

19. The profession 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. This paper is envisaged to be discussed in the Roundtable meeting of 17 November. We would be able to share this paper with you in a draft form early November.

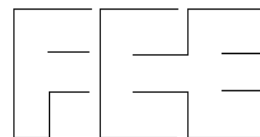
#### **Question 4 – Relationship with national standard-setters and interpretative groups**

**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.**
20. Interpretations by national standard setters should be restricted to domestic issues dealing with specific national circumstances, in particular specific legal requirements which are not relevant for other jurisdictions. In our view national interpretations should only come into force after informing IFRIC, and allowing IFRIC reasonable time to react if it considers a national interpretation to be inconsistent with IFRS, or where it decides to issue an interpretation itself. In Europe it has been concluded that the relationship and cooperation between EFRAG and national standard setters is of crucial importance in this respect and a closer collaboration is envisaged.
21. The EC Roundtable on consistent application of IFRS will consider existing national interpretations within Europe to assess if they appear to be of wider relevance and if so refer them to IFRIC.
22. A database of national interpretations of IFRS with translation into English would be helpful.

#### **Other comments**

23. IFRIC should follow the same transparency and communication requirements as the IASB. This should include web casting and timely publication of IFRIC Update.
24. Para 31 indicates that, if an issue has been considered at three meetings and there is still no consensus in prospect for either a draft or final Interpretation, the IFRIC considers whether it should be removed from the agenda. IFRIC has to inform the IASB and may recommend that the matter be taken up by the IASB. This process leaves too much discretion to IFRIC as to whether and when it will pass an issue over to the IASB, so that there is a danger of undue delay in the resolution of controversial issues. Issues not added to the IFRIC agenda (see paragraph 12 of this letter) or removed from the IFRIC agenda for reasons of not reaching a consensus view finally should be required to be submitted to the IASB.
25. In the case IFRIC cannot reach a conclusion, it could at least indicate which treatments are inconsistent with IFRS.
26. In case major and complex issues are addressed there should be a possibility to extend the comment period to more than 60 days. We appreciate that IFRIC does not intend to address issues that are (close to) standard setting.



We would be pleased to discuss with you any aspect of this letter which you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin'. The signature is fluid and cursive, with the first name 'David' being more prominent than the last name 'Devlin'.

David Devlin  
President