

30 September 2006

Thomas Seidenstein
International Accounting Standards Committee Foundation
30 Cannon Street
London EC4M 6XH

Dear Mr Seidenstein

Draft Due Process Handbook for the IFRIC

Deloitte Touche Tohmatsu is pleased to comment on the International Accounting Standards Committee Foundation's (the IASCF's) Draft Due Process Handbook for the IFRIC (referred to as the Draft Handbook). We commend the IASCF for its effort to improve the deliberative procedures, increase opportunities for consultation and enhance the transparency of the IFRIC's due process.

We generally support the approach outlined in the Draft Handbook and think it would be a useful document in explaining the approach used to interpret standards adopted by the IASB. Further we are pleased to observe that the Draft Handbook addresses concerns raised by our comment letter on the IFRIC – Review of Operations consultation. However, we do draw attention to our principal comments on the Agenda Committee procedures under Question 1 as well as the concerns addressed under Question 3 on the consultative procedure for issues not added to the IFRIC agenda.

Our responses to the questions raised in the Draft Handbook are set out in the Appendix to this letter.

If you have any questions concerning our comments, we would be pleased to discuss them.

Sincerely,

Ingebret Hisdal
Chairman – IFRS Strategy Board

Appendix
Comments of Deloitte Touche Tohmatsu on
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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?

Overall we agree with the Agenda Committee process as outlined in paragraphs 23-27.

We have considered a question of whether conducting Agenda Committee meetings in public would increase transparency especially for issues considered by the Agenda Committee and the IFRIC but not taken on the agenda. We acknowledge the fact that the Agenda Committee is a working group and not a decision taking body, as no more than eight members could be present at a meeting(i.e. no quorum). We therefore consider that it would be more efficient if it continues its current procedure of not conducting meetings in public. As any IFRIC member is permitted to attend the Agenda Committee meetings we believe that objectivity are ensured for issues considered.

However, we would prefer the IFRIC to introduce a monitoring procedure as part of the Agenda Committee due process. On past submissions to the IFRIC we have experienced instances where an issue has taken so long to process that we had to contact the IFRIC on the current status. We believe it could be merit in introducing a process where the Agenda Committee acknowledges, in writing, that an issue has been received. Further, we would also propose that the IFRIC reports back to the submitter on a regular basis, indicating progress on a submission. This could, for example, be when the issue is expected to be discussed by the Agenda Committee and when the issue is expected to be presented to the IFRIC. We understand that this would not necessarily reduce the time it would take to process an issue, but it would increase transparency for the submitter with regards to progress.

We reiterate one point from our comment letter on the IFRIC-Review of Operations where we observed that some IFRIC projects have been significantly plagued by “scope creep” issues. 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. From that point on, the development of a Draft Interpretation should focus only on the scope as defined at inception, and further issues should only be added to the project in the rare case where an IFRIC project cannot be completed without the resolution of other issues. The scope of the Draft Interpretation should be revisited when the IFRIC considers the comment letters received, as constituents may raise issues that indicate a redefining of the scope is required to operationalise the requirements.

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 believe that the agenda criteria listed in paragraph 28 provide the IFRIC with a good basis for assessing whether an item should be added to the IFRIC's agenda.

However, with respect to the criteria used for assessing whether items should be added to the agenda, the IFRIC sometimes rejects a potential agenda item because the IASB is expected to address the issue in a planned project. We believe that the IFRIC need to consider more carefully whether the timeframes set on IASB projects are realistic as it has been a fact that projects from the IASB have not always been released according to plans.

Question 3 – Consultations 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?

As Draft Interpretations are made available for public comment for 60 days, with an exception to make it as short as 30 days if the need for an interpretation is particularly urgent, it seems generally appropriate to have a shorter comment period for issues that the IFRIC does not add to its agenda for interpretations. However, the comment period should reflect the importance and the time spent by the IFRIC to come to a decision.

Further, we do have concern about the voting threshold used by the IFRIC. According to the Draft Handbook the IFRIC achieve a consensus on a final Interpretation when no more than 3 members have voted against a proposal. On the other hand, a simple majority of IFRIC members present at a meeting can agree to add any issue to the IFRIC agenda, which also implies that no more than a simple majority is required to reject an issue. Even if the explanations are published for information only and do not change existing IFRS requirements, we believe that constituents use the explanations to enhance their understanding of IFRS. This can especially be the case when the IFRIC states that an item has been rejected because "IFRSs are clear". We also find it concerning that this voting threshold theoretically permits the IFRIC to publish such an explanation even when 5 of 12 IFRIC members have voted against the proposal. As long as the IFRIC continues to publish explanations for not taking an item on their agenda, we believe that the Trustees should reconsider whether it would be appropriate to strengthen the voting threshold required to achieve consensus for reasons published.

Even if published Agenda Decisions do not change existing IFRS requirements, they sometimes include explanations that can be seen as clarifying IFRSs. We want to highlight that we have noticed concerns and confusion on how changes in accounting treatment, potentially arising as a result of agenda decisions by the IFRIC, should be dealt with. All changes applied must be accounted for according to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but it is not clear to us where to draw the distinction between what would result in a voluntarily change in accounting policy and what would result in restatement due to a prior period error.

We reiterate a matter addressed in our comment letter on the IFRIC – Review of Operations consultation. We continue to be concerned about the time the issue rejection process takes. Based on our experience, it can be up to four months, or more, after submission before a fully developed paper on an issue is presented to the Agenda Committee. The process then takes

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another two months before public documentation of the decisions are made. Accordingly, between the time of submission and the time of formal rejection, there could be at least a six month delay. We believe this is a long time, particularly in situations in which the IFRIC believes the answer to be readily obtainable from existing IFRS.

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 the IFRIC in encouraging NSSs and NIGs to liaise with the IFRIC when they believe interpretations could potentially be divergent with current IFRSs. This work is very important, for example with Hong Kong, Australia or the US issuing interpretations, where we think it is not feasible with the current staffing by the IASB to require a comprehensive monitoring of interpretations issued by these groups. We encourage the IFRIC to continue to liaise with NSSs and NIGs to identify issues for the IFRIC to consider.

(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 IFRIC should not “automatically” pick up local interpretations from NSSs or NIGs and “issue” or “approve” these. However, we do believe that the IFRIC should retain both the right and responsibility to address issues that it becomes aware of, where the implications are of such significance and such widespread relevance that it would be appropriate to address on its agenda for interpretations.

Further, if the IFRIC received a formal request for an interpretation on a local interpretation, we believe that the IFRIC should take this through the normal due process as set out in paragraph 28 for issues referred to the IFRIC. When a local interpretation is referred to the IFRIC, but does not satisfy the criteria to be added to the IFRIC agenda, we believe that the IFRIC should publish a rejection note stating the reason for not adding the issue to the IFRIC agenda.