

22.7/1/1

4 September 2006

Mr Tom Seidenstein
IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

ifricdueprocess@iasb.org

Dear Sir,

RE: IFRIC DRAFT DUE PROCESS HANDBOOK FOR THE IFRIC

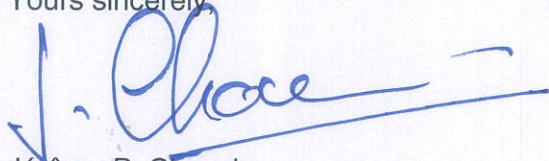
UNICE welcomes the publication of the Draft Due Process Handbook for the IFRIC. Without waiting for its publication, we had written early May to the IASCF Chairman, in order to request that prompt corrective action be taken in order to bring the IFRIC operations up to the high-level standards of independence and transparency of the IASB.

In our letter we were dealing with the most critical issues which are at the heart of the invitation for comment launched with the draft handbook, i.e. the IFRIC Agenda Committee selection and working procedures and the rejection procedure for items not taken to the agenda.

Therefore we send you our former letter attached as our contribution to the ongoing debate. We also include the letter and proposals which were sent to the IFRIC Chairman, Mr Robert Garnett, after the meeting held with him and Mr Allan Cook early June in Brussels.

We sincerely hope that our input will be helpful for the Trustees and lead to the necessary decisions.

Yours sincerely,



Jérôme P. Chauvin
Director, Legal Affairs Department

Annexes:

- UNICE letter to IASCF, dated 8 May 2006
- UNICE letter to IFRIC, dated 28 June 2006
- UNICE proposals "IFRIC due process – issues of concern and ways ahead", dated June 2006

22.7/1/1

8 May 2006

Mr Tommaso Padoa-Schioppa
IASB Foundation Chairman
International Accounting Standards Board
30 Cannon Street
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iascf@iasb.org

THE SECRETARY GENERAL

Dear Sir,

RE: IFRIC DUE PROCESS AND OPERATIONS

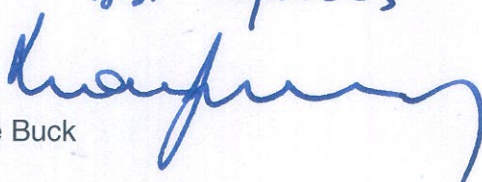
In the summer of last year UNICE had welcomed the opportunity to comment on the review of operations of the IASB's interpretative body, the International Financial Reporting Interpretations Committee (IFRIC). We hoped that this review would lead to urgently needed improvements in the work procedure of IFRIC. Other constituents and national standard setters raised similar comments. Without efficient interpretation the usefulness and future success of IFRS as truly global accounting standards could be seriously hampered.

However, we regret that the reform of IFRIC has not at all matched expectations. Therefore on behalf of the European business community I address myself to you, to put forward three major points where improvements in the IFRIC work procedures are indispensable:

1. Selection, nomination and working procedures of the IFRIC agenda committee need an urgent and in-depth reform. The business community is particularly worried that all members of the agenda committee originate from the auditing profession.
2. When deciding not to take an item on the agenda, IFRIC must limit its wordings for rejections to enunciating the issue considered, and to identifying the criteria applied for rejection. There is more to lose than to gain in letting wordings for rejection expand.
3. For no apparent reason, transparency of IFRIC's operations lies far behind IASB's. We strongly recommend IFRIC's communication standards to be aligned with IASB's – in particular by webcasting their meetings -, and the website to be updated regularly.

Details on each of these points can be found at annex to this letter. I thank you in advance for the consideration you and your colleagues will give to UNICE's views.

Yours sincerely,

best regards


Philippe de Buck

8 May 2006

Annex:

UNICE comments on IFRIC's due process and operations

1- Selection, nomination and working procedures of the IFRIC agenda committee need an urgent and in-depth reform

Although comments expressed by constituents were adamant, IFRIC would not suggest to Trustees any change to their agenda committee working procedures. The agenda committee working procedures are raising major and growing concerns:

- Agenda committee members are originating from the auditing profession only. Although their mandate is claimed to be of two years, no change seems to have been made since IFRIC was established five years ago; there has been no public call for nomination among IFRIC members, no appointment or renewal decision made public. When discussing the issue with IASB representatives, we are informed that agenda committee meetings include IOSCO, EU, IASB and IFRIC members as observers. Nonetheless recommendations to take an item to the IFRIC agenda or to propose a wording for rejection remain at the sole discretion of the audit profession, since observers in meetings do not join in making decisions;
- Agenda committee members are selected by the IFRIC Chairman acting solely; we believe this is not appropriate. IFRIC agenda committee members should be selected by the Trustees; to make this recommendation workable, the length of the mandate might need to be aligned with IFRIC membership mandates;
- Agenda committee meetings do not take place in public. Making them public would in itself considerably alleviate the above concerns. Although IFRIC members have shown very split views on this issue, and in spite of constituents' strong requests, the handbook proposal put to the Trustees does not reflect any proposal or consideration for change; it is all the more surprising that the reason given by IFRIC members to reject the proposal was that they would feel compelled to participate in agenda committee meetings if these meetings went public. We believe that due process, efficiency and public interest motives should prevail. The conviction that all IFRIC members should participate in a public agenda meeting reinforces the claim that those meetings should be held in public.
- Requests made to IFRIC remain in the hidden domain: any stakeholder raising a request to IFRIC remains unaware if, how and when, its request might be dealt with. We are aware of issues which are over 18 month-old. No information is available to identify whether staff is dealing with the issue, or sitting on it, or whether the agenda committee is studying it meeting after meeting. For example, IFRIC D9

seems to have been “dropped” for no obvious reason and without any indication on the website or elsewhere.

- All stakeholders except the large international auditing networks are kept ignorant of the proceedings. We note, with increasing concern, that decisions made in agenda committee meetings are selectively being released – on a regular and timely basis - throughout the international audit networks to which agenda committee members belong; this creates an unacceptable information gap between companies and their auditors when discussing IFRS reporting issues;
- Items submitted to the IFRIC agenda seem to follow the pattern of audit firm wishes; for example, the reason remains unknown, why puts on minority interests have appeared on the IFRIC agenda and were withdrawn, although the issue is of wide relevance and significance with divergent practices flourishing; if the agenda committee’s role is, as it is claimed to be, limited to formulate agenda recommendations to the IFRIC, we wonder why deliberations by IFRIC have not yet started, while other issues of less significance, such as real estate revenue, have found their way to the IFRIC agenda;
- From studying the IFRIC agenda papers (and realising that some paragraphs may have been removed) we are concerned whether IFRIC members are provided with all relevant material and information necessary to form an independent view on the recommendations put forward by the agenda committee; this raises the question of whether:
 - i. The agenda committee has no more information, which would indicate that in fact staff alone makes decisions,
 - ii. The agenda committee has more information, which raise concerns as to why IFRIC members would not have access to the same material, when asked to make an agenda decision.

Whichever the answer is, we believe that this situation is not satisfactory, and procedures should be put in place to ensure independent decision making.

We therefore reiterate the strong recommendations made last July:

- make meetings of the Agenda Committee public and publish timely updates of its analyses,
- open the nomination process to IFRIC members who do not belong to the auditing profession, and insist on having an appropriate balance of backgrounds in the composition of the agenda committee,
- give appropriate publicity to calls for nomination and decisions of new (or renewed) mandates,
- have these decisions made by the IASCF nomination committee.

The present situation leads to having the auditing profession play the role of an unofficial interpretation committee. This is clearly unacceptable practice for an independent organisation, committed to public interest.

Another possibility would be to put in place a formal due process for the wording for rejections and the rejections themselves, including deliberations by

IFRIC as a whole and a full reasoning for the rejection. Of course, we see the problems of capacity constraints arising from such a process.

One example for the unsatisfying way non-interpretations are issued is the interpretation on the issue Scope of IFRS 2: Share Plans with Cash Alternatives at the Discretion of the Entity” which is currently under discussion. Technically the rejection is correct; however the reasoning is difficult to follow as most of the arguments are placed in the observer notes.

2- Wordings for rejection raise heavy concerns

In our initial response, we have welcomed IFRIC’s decision to issue wordings for rejection when deciding not to take an item to its agenda.

However in practice wordings for rejection motivated by an assessment of standards being clear raise a lot of concerns:

- In such cases, wordings for rejection almost inevitably include some technical assessment and eliminate, without proper due process, implicit options contained in IFRS;
- Some wordings for rejection are not even faithful to the IFRS original text; some paraphrase is included which in itself is already an interpretation;
- Issues encountered in practice are not given proper attention; indeed, often IFRIC members are not provided with the careful analysis that would be needed to understand stakeholders’ concerns. We believe that all IFRIC members should take the effort of fully understanding stakeholders’ concerns.
- Wordings for rejection are being used by auditors as if they were an integral part of IFRS, although they are published under an appropriate disclaimer on the IASB website;
- Auditors tend to rely on wordings for rejection to avoid the burden of making their own judgement, or the accompanying responsibility;
- Auditors now claim that the issuance of wordings for rejection can motivate the need for corrections of errors.

We therefore strongly request that wordings for rejection be limited to enunciate the issue considered, and identify the criterion (or criteria) applied for rejection. In particular, stating that the standards are clear should not be elaborated further. Experience shows that there is more to lose than to gain in letting wordings for rejection expand.

3- IFRIC meetings need to be webcast and the IFRIC update needs to be released as quickly as the IASB update

Although the IFRIC meets in the very same room as the IASB, with webcast facilities available, we wonder why IFRIC meetings are not webcast.

The reasons why IFRIC meetings should be webcast are indeed compelling:

- Stakeholders are more likely to be interested in a selection of issues dealt with by the IFRIC, than by the whole session,

- IFRIC process is much shorter, and IFRIC decisions are more likely than IASB active projects to have an impact in the short term on how entities should apply IFRS,
- As for the IASB, travelling to London may not be in the reach of interested parties.

Also, for some unknown reason, the IFRIC update is released much later than the IASB update, in average two weeks after the IFRIC meeting. In comparison, the IASB update is generally released only 2 to 3 days after the meeting (a bit longer when FASB's input is requested).

Furthermore, the list of items not taken on the agenda published on the website is dated December 2004. The use of such a list is difficult to see if it is not updated on a regular basis.

We strongly recommend IFRIC's communication standards to be aligned with IASB's and the website being updated regularly.

22.7/8/1

28 June 2006

Robert Garnett
IFRIC Chairman
IASB
30 Cannon Street
London

Dear Bob,

RE: IFRIC'S DUE PROCESS

It has been a pleasure to welcome you and Allan in Brussels and we are very thankful for the time and effort taken to visit us at UNICE. Our meeting has been an excellent opportunity for a constructive and open exchange of views and we are all the more grateful to you for this.

As you have well understood, one of our main concerns lies with the lack of transparency and balance that the agenda committee's composition and process imply. We understand that the IFRIC works under difficult time constraints and that you are eager to provide the most efficient decision process to IFRIC members. We have been impressed that the IFRIC can now rely on a resourceful team of seven project managers under the competent and knowledgeable leadership of Allan. Under such circumstances, a positive outcome on this difficult issue could well be, as you suggested, to eliminate the need for an agenda committee.

If nonetheless IASCF decided not to take such a step, we see no other possible outcome than complete transparency of the agenda committee's proceedings, the agenda committee's composition being set in a more balanced fashion. We have listened with interest to your proposal of including a UNICE observer in the agenda committee and IFRIC's meetings. This certainly would help, although it cannot remove the need for greater transparency of the proceedings.

We are also well aware that one of the critical issues you have to face is the lack of availability of IFRIC members coming from industry. This is the reason why we have supported the nomination of a very knowledgeable, potential candidate, Dr Bernd Hacker, in response to the IASCF call for nominations.

The second issue we have been happy to discuss with you relate to the role that auditors and enforcers intend to see IFRIC wordings for rejection play, although these wordings are denied any official status by the IFRIC itself. It has come as a relief to us to learn that you would qualify the auditors' and enforcers' move as "unintended consequences".

We understand that you believe nonetheless that there is value in IFRIC releasing guidance to the accounting community on issues which do not warrant interpretations. We have started considering ways ahead in that direction taking into account that UNICE remains committed to IFRS as a set of principle-based standards. UNICE indeed fears that too detailed guidance would start building the infamous US Gaap like “cookbook”.

We include a set of slides to this letter which feature our first line of thinking in the direction you have indicated. Please receive this as a very informal input at an early stage, in the constructive spirit that you have brought to our exchange of views.

I am looking forward to meeting you end of this month, when the SAC convenes.

Yours sincerely,

(original signed by)
Patrice Marteau
UNICE Accounting Group Chairman

Encl. 1



IFRIC due process Issues of concern and ways ahead

June 2006

Issues of concern

- Agenda committee
 - No visibility on the list and detail of issues being under consideration by staff and IFRIC agenda committee
 - Agenda committee members originate from the international audit networks only. No public call for nomination as part of IFRIC nomination process. Nomination is not being made by Trustees
 - Agenda committee meetings are not held in public (observer notes and meeting summaries are not made available)
 - Material supporting agenda decisions much too light to be fully understandable and support thorough assessment of the appropriateness of wordings for rejection



Issues of concern

- Wordings for rejection
 - Are issued under the disclaimer that they are not official positions of the IFRIC
 - Have therefore no official, mandatory status
 - Give accounting guidance as to what should be done or what is prohibited, hence eliminating implicit options
 - Are the result of a very light due process
 - At IFRIC level
 - In terms of transparency and consultation
 - Are being used by auditors and regulators as if they were part of IFRS:
 - Compliance with IFRS, in the eyes of auditors and regulators, implies compliance with the accounting guidance contained in wordings for rejection
 - The publication of a wording for rejection is viewed as a source of correction of errors, which is not compatible with the above characteristics



Ways ahead (1)

- IASCF needs to make a choice between
 - A principle-based set of standards
 - Wordings for rejection need to be void of any accounting guidance
 - Implicit options remain where interpretations are not deemed necessary
 - *This is the direction favored by a majority of stakeholders in Europe (as expressed in EFRAG Advisory Forum in 2005), including UNICE*
 - Different IFRS practices may however flourish
 - This leaves open the risk that regulators make enforcement decisions intended to force greater consistency in spite of their lack of authority to do so



Ways ahead (2)

- IASCF may otherwise opt for
 - More consistency in IFRS application through a greater use of accounting guidance
 - IFRIC is recognized as responsible for the issuance of accounting guidance
 - Wordings for rejection are re-labelled “Clarifications of IFRS” or “Implementation Guidance”
 - If previous practice needs to be changed in the light of any newly issued implementation guidance, IAS 8 “Changes in accounting policies” applies
 - IFRIC “clarifications of IFRS” have the same status as implementation guidance issued by the IASB: they are not mandatory and leave room for judgment
 - IFRIC “Clarifications of IFRS” are issued as the result of a lighter due process than interpretations



Ways ahead (2cont.)

- IASCF may otherwise opt for
 - More consistency in IFRS application through a set of rules: due process for IFRIC “clarifications of IFRS”
 - Agenda committee meets in public, including observer notes, webcast and decision summaries
 - Agenda committee makes recommendations for either interpretation or clarification
 - Guidance to prepare a text of clarification is given to staff by IFRIC, not by the agenda committee
 - “Clarifications of IFRS” would need to be approved by a super-qualified majority of IFRIC members (ie 11 out of 12) to ascertain that they indeed do not change or limit IFRS, or make any significant choice. If such a majority is not met, an interpretation is needed.
 - Consultation process via “IFRIC update” may be maintained (45/50 days exposure)
 - Publication of IFRIC “clarifications of IFRS” is approved by the IASB

