

30 September 2006

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Dear Mr. Seidenstein

IASC Foundation Draft Due Process Handbook for the IFRIC

The Committee of European Banking Supervisors (CEBS) welcomes the opportunity to comment on the Draft Due Process Handbook of the IFRIC issued by the IASCF.

Banking supervisory authorities and central banks have a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline. Ultimately, these objectives are key components of the stability of the global financial system. In that respect, a sound and consistent body of accounting standards interpretations is of particular importance.

We would like to express our support and appreciation regarding the publication of this Draft Handbook which addresses a number of comments and concerns that were already expressed by CEBS and other constituents with a view to strengthen the interpretative process of IFRS. CEBS' concerns were expressed both in its comment letter on the "Review of Constitution: Proposals for Change" issued by the IASCF in November 2004 and in its comment letter on the "Review of IFRIC Operations: Consultative Document" issued in April 2005. Our present response builds upon those previous comments.

Despite our general appreciation, we would like to emphasise the following points:

1. We took note of the fact that the IFRIC does not intend to act as an urgent issues group. However, we continue to believe that adequate and timely interpretation is a key factor for a smooth implementation of IFRS, especially in a principles-based environment. It is, therefore, important that an appropriate balance is maintained between assuring there is sufficient due process and addressing issues in a timely manner. It is with regard to the latter we understand that the European roundtable on application of IFRS might play a role. However we encourage IFRIC to continue its efforts to enhance the IASB's interpretative process. In that respect we do support the development of existing liaison relationships with national standard setters and other interpretative bodies to the extent that the interpretation workflow remains homogeneous and coherent, under IFRIC's responsibility.

2. The principles-based nature of IFRS – strongly supported by CEBS - provides more room for interpretations of the standards and therefore there is a strong need to ensure their consistent use. Although this is unintended, decisions regarding the IFRIC agenda may have a *de facto* interpretative force. Therefore, much attention should be paid to the working procedures of IFRIC, with a particular focus on the transparency of the decisions taken with regard to the agenda as well as the wordings used for rejections. While the current draft Handbook addresses a number of issues in that regard, we believe that further enhancements could be made. More detailed comments are provided in the attachment to this letter.

3. The intended retrospective application of IFRIC interpretations (paragraph 49 of the draft Handbook), consistent with the provisions of IAS 8, might increase the number of restatements of comparative amounts for prior periods (and opening balances) in published financial statements. Although we do not oppose this orientation, we would advise that cost/benefit analyses are incorporated in IFRIC's decision-making process on whether an interpretation should apply retrospectively or not. Moreover, we would like to emphasize the fact that when IFRIC issues a *wording for rejection* under the rationale that a standard is clear, it involves a correction of errors –under the provisions of IAS 8- for those entities which did not apply the standard in the same way. It is therefore important that the IFRIC is fully aware of the consequences when it decides upon whether to issue an interpretation or a wording for rejection. Our comment does not imply that we favour one or another as a principle, but simply stresses the fact that a wording for rejection may have as many consequences as the issuance of an interpretation.

The attachment to this letter provides more detailed answers to the questions of the consultation document.

If you have any questions regarding our comments, please feel free to contact Mr. Arnoud Vossen (+31 20 524 3903) or Mr. Patrick Amis (+ 33 1 4292 6032).

Yours sincerely

A handwritten signature in black ink, appearing to be 'DN' with a stylized flourish.

Danièle Nouy
Chair

Attachment

Question 1 – Agenda Committee

Do you agree with the Agenda Committee process described in paragraphs 23-27? If not, what changes do you propose, and why?

We took note that the Agenda Committee is not considered as a decision-making body and does not decide by itself on whether an issue should be added to the agenda.

However, contrary to the provisions of paragraph 26 and given the importance of the Agenda Committee recommendations and preliminary work, we believe that the Agenda Committee should make significant working papers publicly available.

The transparency of the interpretation process –and consistent implementation of IFRS- would also be enhanced if a detailed list of the issues currently submitted to the IFRIC were made public, along with their current status (from preliminary consideration by the staff to the issuance of a draft interpretation).

We would like also to underline that the composition of the Agenda Committee should be representative of all stakeholders and have a balanced geographical background.

Question 2 – Agenda 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 the fact that as stated in paragraph 28 an issue does not have to satisfy all the criteria at the same time to qualify for assessment.

However, we would like to express some concern regarding the criterion 28-f -which requires that an issue that is the subject of a current or planned IASB project would not be referred to IFRIC unless there is a “pressing” need and regarding the last sentence of paragraph 28, which 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.

We believe that such criteria should apply only when it is expected that the IASB will produce a final standard in a shorter period than the IFRIC requires to complete its due process. If there is a need for interpretation, pressing or not, the IFRIC should address it.

We are also not clear as to how agenda criterion 28-e would be applied. In our view, the absence of consensus should not be presumed but should be acknowledged only after a debate between good-faith and willing participants within IFRIC.

Although not directly related to question 2, we have a similar issue regarding paragraph 31, where we are not comfortable with the fact that the IFRIC could decide to simply remove an issue from its agenda after concluding that it will not be able to reach a consensus. In order to avoid a potential inconsistency in the application of IFRS - and while we do not expect that such a situation could arise very often - we would expect that the issue should be referred to the IASB on a systematic basis, allowing the Board to decide whether, in such a situation, there is a need to modify the standard. Therefore, we recommend replacing the last

sentence of paragraph 31 ("The IFRIC may recommend...") by the following one: "The IFRIC recommends...".

Question 3 – Consultation regarding issues not added to the IFRIC agenda

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 agree with the consultative process.

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

(a) Do you agree that NSSs and NIGs should be encouraged to refer interpretative issues to the IFRIC? If not, why?

We agree with this provision.

However, we believe that the Draft Due Process Handbook does not define with enough accuracy what a "national interpretative group" is and what this means in the context of IFRS. We suggest clarifying the definition of "NIGs".

(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 suggest clarifying the definition of what the IASB regards as local interpretations, and particularly who might issue those interpretations in each local background. For instance, could a "national interpretative group" be regarded as a producer of local interpretations?