

2 October 2006

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Director of Operations
IASC Foundation
30 Cannon Street
London EC4M 6XH
UK

Dear Sir

Re: IFRIC Draft Due Process Handbook

On behalf of Supervisory Board of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on IFRIC Draft Due Process Handbook. Our replies to the questions are set out in the attached note. In summary our comments are as follows.

Firstly, we would like to express our general support of the provisions of the draft Handbook. We were pleased to note that it addresses a number of concerns raised by EFRAG in reply to the IASC Foundation Consultation Paper issued in April 2005.

Notwithstanding that, we continue to have significant concerns in relation to the composition and procedures of the Agenda Committee.

- While we do understand the role of the Committee and the fact that it is not a decision making body, we nevertheless believe that it is essential that the group represents all stakeholders and is geographically balanced; and we would like this reflected in the Handbook.
- In order to achieve transparency essential to the standard setting process it is important in our view that all significant meetings of the Committee are held in public which is currently not the case.
- We were disappointed to see that the draft Handbook does not address the matter of absence of transparency of the status of the issues raised. We strongly urge IFRIC to publish the details of the issues submitted for consideration and the progress of the matters in the decision making process.

Lastly, we would like to comment on a few matters that have not been specifically addressed by the questions asked in the draft Handbook.

- In our view the wording used to explain rejections are in many cases in effect themselves interpretations. Therefore it should be considered either to stop providing any wording when requests for interpretations are rejected or alternatively subject them to a full due process.

- While we agree with the general provisions in regards to the IFRIC membership we believe the following two matters should be explicitly addressed:
 - We believe that, consistent with the IASB process, the search for the new members should always include advertising for possible candidates.
 - The Handbook should also provide for wider and more balanced geographical and stakeholder representation in the IFRIC.
- We understand and support the IFRIC's desire to issue Interpretations in a timely manner. However, we believe the current comment periods to be insufficient to provide a high quality representative feedback. We therefore recommend extending the comment periods to 60 days for rejections and 90 days for draft Interpretations.
- Paragraph 53 provides for the review of IFRIC's mandate and operations at least every five years. We believe that such reviews should include a public consultation stage.

If you would like further clarification of the points raised in this letter, please do not hesitate to contact either Svetlana Pereverzeva or me.

Yours sincerely



Göran Tidström

Supervisory Board Chairman

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?

We do understand that the Agenda Committee is not a decision making body and that its role is limited to the presentation and analysis of issues and to recommendations to the IFRIC. However, we strongly believe that even the preliminary analysis and emphasis are inevitably influenced by the experience and position of those presenting the issues. Therefore, we would like to reiterate the comment we previously raised that the Agenda Committee should be a group representative of all stakeholders and should have a balanced geographical background. The IFRIC Agenda Committee appears not to be such a group. Therefore, we recommend that a requirement for such a balanced representation is included in the Handbook.

It is also essential that the standard setting process is transparent. In our view it means, inter alia, that all significant meetings should be held in public. This is not currently the case.

Another comment that we would like to repeat in relation to the agenda process is that the public should know which issues are being studied by the IFRIC or one of its committees or by its staff and the public should also know exactly what stage that issue has reached in the IFRIC's processes. Currently it is not known which issues have been submitted to the IFRIC for consideration until the IFRIC Agenda Committee has decided whether or not to recommend that the issue be added to the IFRIC's agenda. We strongly believe that the IFRIC should publish details of all issues submitted to it for consideration, together with an explanation of exactly what stage the issue is at in the agenda decision process, what if anything is causing a delay, and when a final decision is expected to be taken.

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 the proposed agenda criteria.

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 support the consultation process regarding issues not added to the IFRIC agenda as stated in the draft Handbook.

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 strongly support this as we believe that all interpretational matters in relation to IFRSs should be dealt with by IFRIC.

- (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.**

Firstly, we doubt whether, under a principles-based financial reporting framework, there are many issues that are narrow enough to be genuinely 'local', yet important enough to warrant interpretation. However, in the instances when on a narrow, country specific issue local interpretation is absolutely necessary; we agree that IFRIC's resources are not best used commenting on such interpretation. Furthermore, we think that such comments could be construed as in effect being an IFRIC interpretation. Hence, we agree with the provisions in the draft Handbook.

Other comments on matters not specifically addressed by the Questions above

Wordings for rejections

We are concerned with the wordings for rejection that are being issued under the practice that IFRIC has developed over the last year. Wordings for rejection were meant simply to help practitioners understand why IFRIC has decided an interpretation is not needed. However, one year of practice has revealed that de facto IFRIC formulates wordings for rejection which in some instances are indeed interpretations. For example, the wordings sometimes eliminate implicit options from standards. While this might be a move in the right direction towards more consistency and comparability, it is a move which should not take place without due process. Also, these wordings for rejection are issued under the following disclaimer: ***“Disclaimer: The following explanations are provided for information purposes only, and do not represent or change existing IFRSs requirement. Official positions of the IFRIC are determined only after extensive deliberation and due process, including a formal vote by written ballot to issue an Interpretation. IFRIC Interpretations only become final if a majority of the IASB does not object to its issuance.”*** Therefore, we believe that these wordings for rejection which the stakeholders might relate to in making their decisions raise the critical problem of their status:

- If they are meant to have no authority, IFRIC needs to take care to ensure that its wordings provide no guidance of interpretation of any kind. If that is not possible, it would be better to stop issuing them altogether;
- If they are meant to have some authority, they should be subject to adequate due process. One aspect of this process could be to require a specific qualified majority (10 or 11 members out of 12 for example) for making decisions of issuance of wordings for rejection which contain guidance. Such a majority would reflect that there is indeed no other way to understand and apply IFRS.

Membership of IFRIC

While we agree with the general provisions on IFRIC membership we believe the following two matters should be explicitly addressed:

- We believe that, consistent with the IASB process, the search for the new members should always include advertising for possible candidates.
- The Handbook should also provide for wider and more balanced geographical and stakeholder representation in the IFRIC.

Comment period

We understand and support the IFRIC's desire to issue Interpretations in a timely manner. However, during our discussions with the constituents we discovered that they were finding the current comment periods of 30 days for rejections and 60 days for draft Interpretations (reduced to 30 days if the need for an Interpretation is particularly urgent) to be insufficient to provide a high quality representative feedback. We therefore recommend an extension of the comment periods to 60 days for rejections and 90 days for draft Interpretations.

Furthermore, we understand that IFRIC is not intending to address issues that are more akin to standard setting than interpretation of existing standards. However, we would like a provision in the Handbook that the consultation period should be further extended if major and complex issues are addressed (such as service concessions).

Public consultation

Paragraph 53 provides for the review of IFRIC's mandate and operations at least every five years. We believe that such reviews should include a public consultation stage.