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Draft Due Process Handbook for the IFRIC

29 September 2006

Dear Mr Seidenstein

We appreciate the opportunity to comment on the *Draft Due Process Handbook for the IFRIC* (Draft Handbook). This letter expresses the views of the international network of KPMG member firms. In this letter we set out our general comments on the Draft Handbook; our comments on the specific questions posed by the Foundation in the Invitation to Comment are set out in Appendix 1 to this letter.

Scope of IFRIC activities

We continue to support the proposal that the primary scope of the IFRIC's activities should be to develop principle-based interpretations; we therefore support the statement in paragraph 6 of the Draft Handbook that the IFRIC is "not seeking to create an extensive rule-oriented environment in providing interpretive guidance". We also continue to support the proposal that the IFRIC not act as an urgent issues group; issues raised with the IFRIC should be assessed against the agenda criteria based on the technical merits of the issue rather than the urgency of the issue. We therefore believe a change in the scope of the IFRIC's mandate is not necessary at this time; for example, we would not support the IFRIC's mandate being expanded to cover providing implementation guidance on newly issued standards or application guidance on referred issues. The IFRIC should not try to resolve all differences in views that are identified.

When deciding whether to add an issue to the agenda, the IFRIC therefore should distinguish between requests for application or implementation guidance and those issues that are significant points of principle; only those issues that relate to significant points of principle should be added to the agenda if one or more of the agenda criteria are met. Therefore we would expect that relatively few issues raised with the IFRIC would be addressed through an Interpretation. The consequence of this is that the IFRIC may not be able to address diversity in practice through its interpretive process when the differences arise from different approaches to application and more than one approach is a reasonable application of the principles in IFRSs.

However, another mechanism through which the IFRIC may address some of the diversity in practice is through clarification of the current requirements of IFRSs provided in commentary in

agenda decisions published in *IFRIC Update*. Our experience is that the clarifications provided through agenda decisions generally have been beneficial. Currently, this commentary is not subject to the same level of due process as Interpretations (see our comments in Appendix 1). There have been concerns raised by constituents as to the level of authority of commentary included in agenda decisions and where they fit within the hierarchy of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. We support the proposal in paragraph 30 of the Draft Handbook that agenda decisions “do not form part of IFRSs”; however we note that constituents generally will refer to clarifications of the current requirements of IFRSs provided in agenda decisions when considering the appropriate application of IFRSs. On the basis that commentary in agenda decisions allow for the reduction of diversity in practice we are cautiously supportive of the IFRIC continuing to use this mechanism to provide clarification of the current requirements of IFRSs, subject to the comments and conditions below.

While we believe that IFRIC’s Interpretations should focus on issues of unclear principles, it is inescapable that there will continue to be demand for a forum to discuss application and implementation guidance. On balance we believe that the IASB should not seek to have authorised implementation guidance beyond what is felt to be necessary as Implementation Guidance, Application Guidance and Illustrative Examples in Standards and Interpretations. However, we believe that it would be constructive for the IASB to pursue opportunities, particularly in the 12 to 18 months following publication of significant new Standards, amendments to Standards or Interpretations, to allow constituents of the IASB to exchange views on how those Standards, amendments or Interpretations are being applied. This would help shape consistent application of the requirements of the principles involved and may identify interpretive issues to raise with IFRIC. We have included our previous suggestion with regards to the IASB supporting a ‘New Standards Forum’ as Appendix 2 to this letter. We encourage the IASB to offer at least limited support for those wishing to share experiences to achieve consistent application of IFRSs without creating additional layers of authoritative guidance.

Voting procedures and wording of agenda decisions

We support the statement in paragraph 30 of the Draft Handbook that a “simple majority of IFRIC members present at the meeting can agree to add any issue to the IFRIC agenda, regardless of the Agenda Committee’s recommendation.” However we believe that different voting procedures should apply to the approval of the wording of agenda decisions that provide clarification of the current requirements of IFRSs. We therefore recommend that the voting procedures in respect of approval of the wording of agenda decisions be modified.

As agenda decisions are not authoritative guidance we believe that these decisions should not require approval by the International Accounting Standards Board (IASB).

In our view, if more than one IFRIC member dissents in respect of the wording of an agenda decision, then the agenda decision should not say that “the requirements of IFRSs are clear”. Similarly, if more than three members dissent in respect of the wording of an agenda decision,

then we believe that it would not be appropriate to provide that commentary on the current requirements of IFRSs as the level of dissent should be viewed as indicative of a lack of consensus on the current requirements of IFRSs. If fewer than four members but more than one member dissent, then, in our view, the agenda decision should be worded along the following lines: “the balance of requirements of IFRSs taken as a whole support [one view], with the result that diversity in practice would not be expected after this clarification by the IFRIC.” We believe that the wording of agenda decisions would affect how agenda decisions fit within the hierarchy of IAS 8, as set out below.

Interaction of agenda decisions and the hierarchy of IAS 8

As noted above, it is not clear where agenda decisions that provide clarifications of the current requirements of IFRSs fit within the hierarchy of IAS 8. In our view, the modifications to the current wording of agenda decisions proposed above is necessary to make it clear whether a change in accounting treatment to conform to clarifications in an agenda decision is presumed to be treated as a voluntary change in accounting policy. Our experience to date is that most of the issues raised with IFRIC are differences in practice that arise after consideration of the requirements of IFRSs, but may be influenced by different readings of the standards or past practices under other accounting frameworks. Often the staff analysis will highlight considerations that argue persuasively for a single approach when the requirements of IFRSs taken as a whole are considered. In these cases the IFRIC has concluded appropriately that an Interpretation is not necessary. With the benefit of a summary of the staff analysis that is the basis for IFRIC’s conclusion, entities will be encouraged to make voluntary changes in accounting policies to conform to IFRIC’s clarification of the balance of requirements of IFRSs, thereby reducing existing diversity in practice.

We agree that IFRIC should not be precluded from stating that the requirements of IFRSs are clear. This is necessary to avoid the risk that an entity with an error in the application of IFRSs will submit an issue to IFRIC in order to refer to an agenda decision as the basis for a voluntary change in accounting policy rather than correction of an error. IFRIC should retain a way to deal with this problem if it arises but should not use the phrasing “it is clear” for issues of legitimate differences in view (see also our above comments with regards to voting procedures and wording of agenda decisions).

Overall we believe that the use of commentary in agenda decisions strikes the right balance between the non-authoritative status of guidance and due process (see our comments in Appendix 1). As noted above we agree that commentary in agenda decisions should not have a formal status; however we recognise that an entity that applies an accounting policy that is not in accordance with commentary provided in an agenda decision would have a significant challenge in demonstrating that the policy is in accordance with the requirements of IFRSs.

Composition of the Agenda committee

Please refer to Appendix 1 for our specific comments on the roles and responsibilities and composition of the Agenda Committee.

Comment period for Interpretations

Paragraph 43 of the Draft Handbook states that “Draft Interpretations are made available for public comment for 60 days. If the need for an Interpretation is particularly urgent, the comment period may be as short as 30 days.” Given that IFRIC Interpretations are not intended to address urgent issues we believe that it should be unusual for an Interpretation to be made available for public comment for a period shorter than 60 days. If an Interpretation is made available for public comment for a period shorter than 60 days, then we believe that the IFRIC should explain to constituents the reason for the need to limit the comment period in this way.

Capacity to produce

We believe that positive progress has been made in the past six to eight months in respect of the IFRIC’s capacity to address referred issues; this has been supported by the increased allocation of IASB staff resources. We believe that the same level of IASB support should continue to be provided to the IFRIC to help ensure that it has sufficient resources to fulfil its roles and responsibilities as set out in the Draft Handbook. We encourage the Foundation to continue to monitor the resources made available to the IFRIC, particularly in respect of the initial research of referred issues.

In addition, we believe that the appointment of an IASB member as Chair of the IFRIC has improved the effectiveness of the IFRIC meetings. The separation of this role from that of the Technical Director of the IASB has allowed the Technical Director to participate more actively in the IFRIC process; i.e., planning of the initial and ongoing research of IASB staff, technical contributions at meetings, communication with members of the IASB, etc.

Other

As commentary in agenda decisions is not authoritative we support the proposal that the historical record of agenda decisions should be made available to the public on the IASB web-site but not be updated as IFRSs are amended or be cross-referenced to standards; to do so would imply a higher level of authority than that set out in the Draft Handbook.

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Please contact Mary Tokar at 020 7694 8288 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix 1 – Response to specific questions posed by the Foundation

Our responses to the specific questions posed by the Foundation in the Invitation to Comment are set out below.

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?

In principle we agree with the objectives and process of the Agenda Committee as set out in paragraphs 23-27 of the Draft Handbook. In particular, we support the statement in paragraph 24 of the Draft Handbook that the “Committee’s role is limited to the presentation and analysis and recommendations to the IFRIC” and the statement in paragraph 26 that the Agenda Committee “is not a decision making body”. However, we are aware of an inaccurate perception amongst constituents that the Agenda Committee is acting as a decision-making, rather than an advisory, body. One reason why this perception may exist is because the Agenda Committee currently is comprised of four members each of who are from the auditing profession; as such the membership of the Agenda Committee is not representative of that of the overall base of constituents or of the IFRIC itself. We therefore recommend that the membership of the Agenda Committee be expanded to six or seven members with participation by preparers. We believe that the IFRIC should continue its current practice of distributing papers to all IFRIC members and permitting all IFRIC members to participate in Agenda Committee meetings. The expansion and diversification of the membership of the Agenda Committee would help to ensure a wider variety of views are taken into account when the Committee provides its recommendation to the IFRIC.

As noted above we support the statement that the Agenda Committee is not a decision making body and therefore does not resolve technical issues; however the Agenda Committee members play an important role in recommending to the IFRIC whether an issue is taken on the agenda. The IFRIC considers the recommendation of the Agenda Committee in deciding whether to add the issue to its agenda. We are disappointed that there is not a more robust discussion by the IFRIC of recommendations put forward by the Agenda Committee; more extensive deliberations by the IFRIC are necessary to challenge the views of the Agenda Committee and also would help to ensure a wider variety of views are taken into account when deciding whether to add an item to the agenda.

It is proposed in paragraph 26 of the Draft Handbook that, as the Agenda Committee is not a decision-making body, it will not meet in public. In addition, under the current proposals the papers for Agenda Committee meetings will be available to members of the IFRIC on request but not be made available publicly. Consistent with the current operating procedures and policies, deliberations of the Agenda Committee will not be made available publicly, for example, through *IFRIC Update*.

At this time we support the proposal that the Agenda Committee not meet in public, however we recommend that the Foundation continue to consider whether and to what extent the deliberations of the Agenda Committee be made available publicly. Proposals that would allow for the process to become more open to the public would allow interested parties to be aware of how the Agenda Committee participants are addressing referred issues and the progress being made on issues prior to a recommendation being made to the IFRIC. We believe such proposals would provide preparers with more confidence in the ongoing process of the Agenda Committee and the recommendations it makes. We therefore recommend that the Foundation continue to monitor this area, and, if the above-noted concerns of constituents persist, then consideration should be given to making papers prepared for Agenda Committee meetings and minutes of meetings available to the public. If participation in Agenda Committee meetings by members of the IFRIC is constrained on more than an infrequent basis by the proposal in paragraph 22 of the Draft Handbook that “no more than eight IFRIC members in total be present in person or by telecommunications”, then we would prefer a public meeting of the Agenda Committee to precluding participation by all interested members of the IFRIC.

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.

In principle we continue to agree with the agenda criteria listed in paragraph 28, which remain relatively consistent with those in paragraph 27 of the current *Preface to International Financial Reporting Interpretations*. However we note that in the additional commentary following the criteria in paragraph 28 it is stated that “the IFRIC will not add an item to its agenda if the IFRSs are clear, with the result that divergent interpretations are not expected in practice.” Consistent with our recommendations noted in the main body of this letter, we recommend that this wording be expanded to encompass those issues that are not taken on the agenda because “the balance of requirements of IFRSs taken as a whole support one view, with the result that diversity in practice would not be expected after clarification by the IFRIC.”

Question 3 – Consultation regarding issues not added on 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?

The ‘due process’ for IFRIC agenda decisions is set out in paragraph 29 of the Draft Handbook; this is consistent with the current operating procedures of the IFRIC in this regard. If our proposed recommendations in respect of the voting procedures and wording of agenda decisions are accepted, then, in our view, the due process set out in paragraph 29 is sufficient as it is commensurate with the level of authority of the guidance.

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.

We prefer not to have interpretations issued by NSSs and NIGs because of the risk of developing national ‘dialects’ of IFRSs. However, for issues that focus on how IFRSs should be applied to a particular business practice unique to a single jurisdiction, there might be a perceived benefit at a national level from having discussions of local issues captured in the form of a national interpretation. Ideally, in order to avoid the risks arising from conflicting or overlapping interpretations, it would be beneficial to have any such work at a national level coordinated and cleared through the IFRIC. However we recognise that there currently are significant barriers that may make it impractical for the IFRIC to comment on whether local interpretations are consistent or inconsistent with IFRSs.

However, we believe that IFRIC should be encouraged to use NSSs and NIGs as a key source of knowledge and of issues for consideration. Accordingly we believe that the possibility of the IFRIC using the information available from NSSs and NIGS should be formalised in the Draft Handbook.

Appendix 2 – Previous suggestion with regards to the sponsoring of a ‘New Standards Forum’

The following is an excerpt from our 18 August 2005 comment letter to the IASC Foundation on the *IFRIC–Review of Operations: Consultative Document*.

“In our view, a key driver behind the demand for an urgent issues group is the need to resolve issues arising upon application of new IFRSs. In our experience a large volume of issues arise three to 12 months after issuance of a new standard, the majority of which are resolved within 12 to 18 months. Therefore, we believe that making the IFRIC an urgent issues group would be fixing a short-term problem with a long-term solution. Once a stable platform is established for IFRSs we hope that the demand for an urgent issues group would be reduced considerably.

Our suggestion to deal with new application issues is for the IASB to sponsor a ‘New Standards Forum’. A Forum could provide an opportunity for a number of Board, IFRIC and IASB staff members to meet with constituents to discuss practical and interpretive issues. The aim would be for the IASB to facilitate discussion between interested parties, including users, preparers, auditors, standard-setters and regulators, and to provide insight into the intention of the standard-setters in the context of discussing these implementation issues.

The Forum would facilitate discussion of application issues but should not seek to publish guidance. If the discussion highlights significant diversity of views regarding a particular issue, then it could be referred to the IFRIC for consideration. The Forum meeting could be chaired by the IFRIC chairman or another member of the Board. A ‘New Standards Forum’ could be held initially after the issuance of the standard and then every three to six months for a period of approximately one year after a new standard is published. In this way, we believe that the majority of issues related to a new standard could be highlighted and discussed through greater interaction of constituents directly with Board and IFRIC members, while providing an alternative for dealing with urgent issues in a way that does not create another layer of authoritative guidance.

The discussions may identify issues that need to be brought to the attention of the IFRIC, however, this would not be the main purpose of the Forum. A summary of the discussions that took place at the Forum could be released after the meeting through posting on the IASB web site. This would enable constituents who did not attend the meeting to understand practical issues arising on the application of the new standard. These summaries should not express conclusions that are, in substance, interpretive or application guidance.”