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Dear Tom

#### **Draft Due Process Handbook for the IFRIC**

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants and the Accounting Standards Review Board (ASRB) are pleased to submit comments on the International Accounting Standards Committee Foundation's (IASCF) *Draft Due Process Handbook for the IFRIC* (draft Handbook).

As we have previously submitted<sup>1</sup>, notwithstanding that our preference is for standard-setting resources to be focused on developing a set of high quality International Financial Reporting Standards (IFRSs) rather than Interpretations of IFRSs, we consider Interpretations to be an important area of the overall standard-setting process. In this context, we support the work of the International Financial Reporting Interpretations Committee (IFRIC).

We consider it important that Interpretation of IFRSs be addressed at the international level to ensure that there is one set of coherent and consistent Interpretations. We consider that the due process adopted by the IFRIC in dealing with Interpretations is critical in ensuring that national jurisdictions using IFRSs, including National Standard Setters (NSSs) and National Interpretation Groups (NIGs), have confidence both in submitting issues to the IFRIC for consideration and in its Interpretations and decisions. Without this confidence in the IFRIC, there is a risk that NSSs and NIGs may issue domestic interpretations of IFRSs that may conflict with Interpretations and/or IFRSs.

We note that the draft *Handbook* refers to the relationship with national standard-setters and national interpretative groups. One particular area that we consider that the IFRIC needs to consider in finalizing its proposed *Handbook* is its relationship with regulators. While observers from the International Organisation of Securities Commissions (IOSCO)<sup>2</sup> currently attend the IFRIC meetings, the draft *Handbook* is silent on how the IFRIC interacts with the regulators. As currently set out in the draft *Handbook*, the relationship

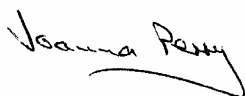
<sup>1</sup> See FRSB's and ASRB's letter of 31 July 2005 on the *Consultation Paper IFRIC - Review of Operations*.

<sup>2</sup> We understand that the observers are from the US Securities and Exchange Commission (SEC) and the Committee of European Securities Regulators (CESR).

between IOSCO and the IFRIC appears passive. Regulators have an important statutory responsibility in interpreting accounting standards. Interpretations of accounting standards by regulators in carrying out their regulatory functions are required to be carried out on a timely basis (this would generally take less time than it would take the IFRIC to issue an Interpretation). They also have a binding effect and have great precedent value in their jurisdictions. We note that the IOSCO website contains an “*IOSCO IFRS Interpretation Database*” that is available to its members. We consider that it is important that the proposed *Handbook* sets out how the IFRIC proposes to interact or build its relationship with regulators.

Our specific comments to the Invitation to Comment are set out below. If you have any queries, or require clarification of any matters in the submission, please contact Joanna Perry ([joannaperry@extra.co.nz](mailto:joannaperry@extra.co.nz)), Warwick Hunt ([warwick.hunt@nz.pwc.com](mailto:warwick.hunt@nz.pwc.com)) or Joanna Yeoh ([joanna.yeoh@nzica.com](mailto:joanna.yeoh@nzica.com)).

Yours sincerely



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**Chairman**  
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## Responses to the Invitation to Comment

Our specific comments to the Invitation to Comment are as follows:

### **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 generally agree with the Agenda Committee process described in the draft *Handbook*. However, we have the following comments relating to the Agenda Committee and its process.

#### Conflicts of interest

In paragraph 23, we question the extent to which the source of a suggested agenda item can be kept from the Agenda Committee or others. Paragraph 18 states that the “*primary responsibility*” for identifying issues to be considered by the IFRIC is that of its members and observers. Notwithstanding that the IFRIC members are appointed in their personal capacities, an issue may be referred to the IFRIC from an external source but in which an IFRIC member may have an interest (for example, an issue that is referred by a client of an IFRIC member or other related party). We consider that it is important that internally raised issues are not given preferential treatment by the IFRIC (compared to those referred to the IFRIC from other sources) but are subject to the same transparent process through the Agenda Committee before being considered by the IFRIC. We consider that the proposed *Handbook* should make this clear.

We also query whether the Chairman of the IFRIC should also be the Chairman of the Agenda Committee. It could be perceived that that Chairman may be conflicted by acting in both roles. This is particularly so given that the Agenda Committee meetings are not open to the public.

We consider that it is important that the proposed *Handbook* include some basic procedures to deal with conflicts of interest.

#### “Primary responsibility” of the IFRIC members and observers

Paragraph 18 states that the “*primary responsibility*” for identifying issues to be considered by the IFRIC is that of its members and observers. It is unclear whether this refers to identifying issues to refer to the Agenda Committee for consideration (similar to referrals from other sources) or deciding on issues to be added to the IFRIC agenda (based on recommendations from the Agenda Committee).

If it is the former, given the widespread use of IFRSs around the world, it is questionable if the primary responsibility for identifying issues to be considered by the Agenda Committee should still be that of its members and observers. (We comment further on this point in our response to Question 4 below.) Also, it may be that the removal of the primary responsibility from the IFRIC members and observers to identify issues for consideration by the Agenda Committee would go some way towards reducing any conflicts of interest issues.

If it refers to the latter (i.e., deciding on issues to be added to the IFRIC agenda), we think that the proposed *Handbook* should make this clear.

#### Screening of issues by IASB staff

We understand that when issues are referred to the IFRIC from external sources, IASB staff attempts, where possible, to resolve trivial or educational issues with the submitters. This is to ensure that only issues that are suitable for examination by the Agenda Committee and, subsequently, the IFRIC are forwarded to the Agenda Committee. If issues are considered to be unsuitable for consideration by the Agenda Committee (and the IFRIC), we understand that the submitter of the issue is contacted and persuaded to resolve the issue by other means. We agree with this process. However, for transparency, we consider that this initial “resolution” and communication process by the IASB staff with the submitter should be clearly stated in the proposed *Handbook*.

#### Agenda Committee and recommendations to the IFRIC

We agree that the Agenda Committee should not be a decision-making body in that its role should be limited to making recommendations to the IFRIC for the IFRIC to decide whether to include an item on the IFRIC agenda or not. However, we note that paragraph 27 states that:

*“The Agenda Committee reports to the IFRIC at its regular meetings on issues the Agenda Committee considered for addition to the IFRIC’s agenda and the Agenda Committee’s recommendation on each issue.” [emphasis added]*

The above statement gives the impression that only those items recommended for addition to the IFRIC agenda by the Agenda Committee are put to the IFRIC. As the Agenda Committee is not a decision-making body, it should not be its role to filter out or omit issues to put before the IFRIC (once it has been determined that an issue is suitable for consideration by the Agenda Committee). The IFRIC should be the body that makes the decision whether or not to include an item on the IFRIC agenda based on the recommendations of the Agenda Committee. To this extent, we consider that it is important to explicitly state in the proposed *Handbook* that, apart from any trivial or educational issues that have been resolved by IASB staff, the Agenda Committee will:

- address all issues referred to the IFRIC from all sources; and
- put all issues from all sources (with an appropriate recommendation) before the IFRIC so that the IFRIC can decide whether to accept or reject the issues.

To this end, we suggest that the words “*for addition to the IFRIC agenda and*” be deleted from the sentence quoted above.

#### Agenda Committee and IASB staff

The draft *Handbook* contains conflicting statements on the purpose and role of the Agenda Committee vis-à-vis IASB staff in relation to agenda items. In paragraphs 23, 24 and 25 it is variously stated that:

- the Agenda Committee assists the IASB staff in presenting the issues to the IFRIC;
- the Agenda Committee may recommend an issue for addition to the IFRIC agenda;
- the Agenda Committee’s role is limited to the presentation of analysis and recommendations to the IFRIC; and
- the Agenda Committee considers the criteria set out in paragraph 28 in determining whether to recommend that an issue be included on the IFRIC agenda.

In paragraph 20, it is stated that “*IASB staff consider whether the item meets the agenda criteria*” and “*subsequently assesses the issue and provides analysis and recommendations to the IFRIC*”.

We consider that the role and purpose of the Agenda Committee vis-a-vis IASB staff needs to be more clearly stated in the proposed *Handbook*. As currently stated, their roles seem to overlap and it is not clear what their respective responsibilities are in terms of analysing issues, determining whether the issues meet the necessary criteria, determining the recommendations and presenting issues to the IFRIC. In addition, as the Agenda Committee is a formally constituted Committee, we consider it more appropriate that IASB staff supports and assists the Agenda Committee rather than vice-versa.

#### Membership and selection of Agenda Committee members

We agree with the manner in which the IFRIC members are selected<sup>3</sup> as set out in paragraph 10 of the draft *Handbook*. We also agree that having the IFRIC members on the Agenda Committee ensures that the Agenda Committee members reflect the same technical ability required of the IFRIC members. However, as the Agenda Committee is not a decision-making body but merely makes recommendations to the IFRIC on what is to be added to the agenda, it may be useful to consider whether it should also include some representation from non-IFRIC members.

Notwithstanding its composition, we consider that it is important, for transparency purposes, that the criteria used by the Chairman to select and to renew members of the Agenda Committee be explicitly outlined in the proposed *Handbook*.

As the Agenda Committee has a significant role in recommending issues to the IFRIC for consideration, the proposed *Handbook* should also clarify whether there is a required maximum or minimum number of Agenda Committee members at any one time and whether a quorum is required to hold an Agenda Committee meeting.

#### Meetings of the Agenda Committee

The reason given in the draft *Handbook* for the Agenda not meeting in public is that it is not a decision-making body. Our preference is that a committee of the IFRIC that deals with agenda issues follows a transparent process. To this extent, we prefer that Agenda Committee meetings be in public as it performs a role that the IFRIC would need to perform in the absence of the Agenda Committee. In addition, we note that some working groups of the IASB (for example, the Insurance Working Group) meet in public notwithstanding that they are not decision-making committees. If the decision is that Agenda Committee meetings continue to be closed to the public, we consider that the proposed *Handbook* should provide a more robust justification for the decision.

It may be useful for the proposed *Handbook* to also state whether there is a fixed number of meetings scheduled for the Agenda Committee or, alternatively, the frequency of such meetings. This will be useful for NSSs and NIGs in terms of planning for items to refer to the IFRIC and in monitoring issues referred to the IFRIC for consideration.

Paragraph 22 states that other IFRIC members and the observers may attend Agenda Committee meetings. For transparency, it should be clarified whether these other IFRIC members and observers have any speaking rights at those meetings.

#### **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 consider that the criteria set for assessing proposed agenda items are a fundamental aspect of the proposed *Handbook*. We note that while each criterion listed in paragraph 28 for assessing proposed agenda items appears reasonable on its own, the criteria, taken as a whole, appears to be confusing<sup>4</sup>.

<sup>3</sup> That is, IFRIC members are selected based on their ability to maintain an awareness of current issues as they arise and the technical ability to resolve them and with a reasonably broad geographical representation.

<sup>4</sup> For example, notwithstanding that the criteria are intended to assess whether an item should be accepted as an agenda item, as they are currently stated, not all the criteria relate to the issue that is submitted per se: they also relate the existing requirements of IFRSs, IFRIC's judgment on timeliness of resolution of issues and to the existence of IASB projects. The relationship between the individual criteria is also not clear: although paragraph 28 states it is not necessary to meet all the criteria to qualify for assessment, the comments at the end of paragraph 28 indicate that an item would not be added to the agenda if it fails either

We consider that it is important that the proposed *Handbook*, besides specifying the necessary relevant criteria, also includes a transparent decision process for applying the criteria and explain what other factors, if any, are relevant to the agenda decision. We consider that the decision process could be described in the form of a decision flowchart. We attached as Appendix 1 an example of such a flowchart containing our initial thoughts based on the criteria as they are currently stated. Any finalized flow chart would need to be clear on whether particular criteria are essential and be able to deal with situations where an issue fails one or more criteria but meets others. As a minimum, a decision outcome should be associated with each criterion. It may be necessary for each criterion to be applied to an item before a decision be made on whether it should be added to the agenda or be rejected and for the decision process to stop at anytime there is clear consensus on an outcome. Multiple outcomes may also be possible, in which case the IFRIC might only report on the most significant outcomes. We consider that as they are currently worded, the criteria, without a corresponding transparent decision process on how the criteria are to be applied, effectively do not assist in determining whether an issue should be accepted or rejected.

**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 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 agree the consultative process for the issues that have been considered both by the Agenda Committee and the IFRIC and that are not added to the IFRIC agenda<sup>5</sup>.

However, as we have previously submitted<sup>6</sup> we consider that there is a danger that the rejections by the IFRIC become a list of de-facto Interpretations. We are concerned that the manner in which some rejections are worded serve an educational need rather than merely stating the reasons for the rejection. We believe that providing “educational” rejections will encourage constituents to abandon professional judgement in favour of obtaining additional guidance from the IFRIC through the rejection process. As such, we would prefer that the IFRIC provide less detailed responses to those inquires by simply directing applicants to relevant paragraphs in IFRSs and/or explaining that it is not an issue that should be addressed by an Interpretation.

**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.*

(a) We strongly agree that NSSs and NIGs should be encouraged to refer interpretative issues to the IFRIC. This is essential to avoid the development of local interpretations that may be inconsistent with

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criterion (b) or (f). This seems to indicate that these two criteria are the essential criteria. In addition, we note that based on recent IFRIC Updates, it seems that criterion (e) may also be essential as it is commonly used to reject an issue. Criterion (c) appears to us to be redundant: it is likely to be met most of the time and appears to be in the nature of an objective rather than a criterion.

<sup>5</sup> This process excludes those issues that are removed at the initial staff resolution process where submitters of the issues may be contacted separately with regard to any alternative solutions.

<sup>6</sup> See FRSB’s letter dated 1 May 2006 on *Rejection of Issues for the IFRIC Agenda*.

IFRSs or other Interpretations. More importantly, a close working relationship and more open communication with NSSs and NIGs will enhance the support and acceptability of the IFRIC's work.

In paragraphs 18 and 19, the IFRIC members, observers, preparers, auditors and others with an interest in financial reporting and any individual or organization are specifically identified and encouraged (or charged with the primary responsibility) to refer issues to the IFRIC. As noted above, given the widespread use of IFRSs around the world, it is questionable if the primary responsibility for identifying issues to be considered by the IFRIC should still be that of its members and observers. We consider that NSSs and NIGs and, possibly, regulators are equally, if not more, important sources of referrals of issues to the IFRIC. NSSs, NIGs and regulators are usually the first point of contact for those with issues in the various national jurisdictions. To this extent, we consider it important that NSSs, NIGs and regulators should be specifically referred to in paragraphs 18 or 19 as another primary source of referrals to the IFRIC.

Given the important roles that NSSs and NIGs play in their respective jurisdictions, it will be useful for the IFRIC to be more inclusive and involve the NSSs and NIGs in its processes (where the resources of the NSSs and NIGs permit). For example, they could be involved in preparing Issues Summaries and in joint projects, particularly where the issues are referred to the IFRIC by the NSSs or NIGs. This will also be helpful from the IFRIC's perspective given its limited resources. Greater involvement of the NSSs and NIGs may also ensure greater confidence in the process and decisions of the IFRIC.

- (b) We agree that the IFRIC should not consider local interpretations and comment on whether they are either consistent or inconsistent with IFRSs. However, we consider that where IASB staff becomes aware that a local interpretation may be inconsistent with IFRSs or other Interpretations, this should be identified, communicated to the relevant NSS/NIG or regulator and, where appropriate, the NSS/NIG or regulator be encouraged to submit the issue to the IFRIC for consideration or amend the local interpretation.

As we mentioned in the accompanying letter, the IFRIC's relationship with regulators needs to be considered further. Regulators effectively interpret accounting standards in carrying out their regulatory function. Their interpretations are likely to be timelier, are binding and have greater precedent value in their respective jurisdictions. Our concern is that interpretations by regulators, particularly the development of a shared *IOSCO IFRS Interpretation Database*, may not necessarily be consistent with IFRSs or Interpretations. We think that the IFRIC should consider how it proposes to deal with interpretations that are issued by regulators.

## **Other comments**

### Withdrawal of Interpretations

We have previously submitted on the revocation or withdrawal of an Interpretation by the IFRIC on a standalone basis<sup>7</sup>, for example, the withdrawal of IFRIC 3 *Emission Rights* by the IASB in June 2005 with immediate effect. We note that paragraph 50 of the draft *Handbook* sets out the process for when an Interpretation is withdrawn as a consequence of an IFRS or other authoritative document issued by the IASB that overrides or confirms a previously issued IFRIC consensus. We note the absence, both in the draft *Handbook* and in the *Preface to International Financial Reporting Standards*, of a due process to withdraw Interpretations on a standalone basis. We consider that the absence of a formal process at the international level for the revocation or withdrawal on a standalone basis of a pronouncement makes the revocation of a Standard or Interpretation at the national level somewhat problematic. In many jurisdictions, including New Zealand, a legal due process is required both to approve and revoke accounting standards.

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<sup>7</sup> See FRSB's and ASRB's letter dated 31 July 2005 on *Consultation Paper IFRIC – Review of Operations*.

We are concerned with the lack of a formal due process for the standalone revocation of an Interpretation. We recommend that the proposed *Handbook* and the *Preface to International Financial Reporting Standards* includes a formal process both at the IFRIC level and at the IASB level for the standalone withdrawal of Interpretations.

#### Tracking of issues submitted

When an issue is referred to the IFRIC for consideration, we consider it important that the submitter and other constituents are able to keep track of the progress of the issue through the IFRIC process. To this end, we recommend that the IFRIC maintains a work plan of all issues on its agenda, along the lines of the IASB's Quarterly Work Plan, and the estimated timeframes for the consideration or resolution of those issues by the IFRIC. Such a work plan should, at a minimum, be updated on a quarterly basis.

#### Timeliness

Paragraphs 1, 9, 28 and 31 of the draft *Handbook* refers to “timely identification, discussion and resolution of financial reporting issues”, “consensus is made publicly available to interested parties on a timely basis”, “It is probable that the IFRIC will be able to reach a consensus view on a timely basis” and “To ensure that the IFRIC considers only issues on which timely guidance can be provided”.

Apart from paragraph 31 which sets out the number of meetings to consider an issue, no other timeframes are indicated. We think that it would be more transparent for estimated timeframes to be set out for each stage of those areas where the IFRIC proposes to work in a “timely” manner. It is imperative that constituents have confidence in the timeliness with which the IFRIC deals with issues that are submitted.

#### Development of Issue Summaries

Paragraph 37 states that the IFRIC reaches its conclusions based on the information contained in Issue Summaries that are “prepared under the supervision of IASB staff”. It is unclear who else, other than IASB staff, is able to prepare Issue Summaries for consideration by the IFRIC. We think this should be clarified. We consider that NSSs and NIGs should be encouraged to prepare Issue Summaries, where those issues are referred to the IFRIC by the NSSs or NIGs, under the supervision of IASB staff.

#### IFRIC's responsibilities and the scope of its work

Paragraph 5 of the draft *Handbook* states, in terms of the IFRIC's responsibilities and the scope of its work: “the IFRIC reviews newly identified financial reporting issues not specifically addressed in IFRSs or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance, with a view to reaching a consensus on the appropriate treatment.”

Paragraph 36 of the IASB's due process extracted from the Constitution (as set out in Appendix B to the draft *Handbook*) states, in respect of the IFRIC:

“The Committee shall:

(a) interpret the application of International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) and provide timely guidance on financial reporting issues not specifically addressed in IASs and IFRSs, in the context of the IASB Framework, and undertake other tasks at the request of the IASB;

(b) in carrying out its work under (a) above, have regard to the IASB's objective of working actively with national standard-setters to bring about convergence of national accounting standards and IASs and IFRSs to high quality solutions;”

We consider that the text of the IFRIC's responsibilities and the scope of its work should be identical in the two documents. As it stands, the IFRIC's responsibilities and the scope of its work in the draft *Handbook* appears incomplete.



## Appendix 1 - Example of Agenda Criteria Assessment Flow Chart

