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Mr Thomas Seidenstein
IASCF
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Draft Due Process Handbook for the IFRIC

Dear Mr Seidenstein,

On behalf of the European Commission, I am writing to comment on the Draft Due Process Handbook for the IFRIC.

We welcome the opportunity to comment on the Draft Due Process Handbook for the IFRIC issued by the IASCF in May 2006 as a follow up to the consultation paper "IFRIC Review of Operations". In this context we would like to refer to the Council conclusions on the financing of the International Accounting Standards Board (IASB) as of 11 July 2006¹. The Council concluded that the IASB should continue to strengthen its governance structure with a view to take the public interest adequately into account, to strengthen its due process with stakeholders and develop impact assessments, field testing and reasoning behind any decisions, as well as ensure that stakeholders are adequately represented in the IASCF, IASB and IFRIC.

¹ We refer to the conclusions made at the Economic and Financial Affairs Council (ECOFIN) of the European Union on 11 July 2006 discussing the funding of the International Accounting Standards Board.

IFRIC has an important role as a committee of the IASCF assisting the IASB in improving financial reporting through timely discussion and resolution of emerging or existing diverging practices in terms of IFRS application. We are supportive of IFRS being a principles-based set of standards but believe that there are areas where standards are insufficiently clear or inconclusive and therefore risk being misunderstood and applied in significantly different ways. Therefore, resolution by way of issuing interpretations is needed. This is of particular importance since consistent application of IFRS is one of the key criteria for IFRS to be accepted on a global basis and to achieve the main objective of comparability.

The due process of IFRIC is crucial because it allows constituents who are on the front line when practical difficulties of application are concerned to participate in the process in the most effective and efficient way. Furthermore, it is important to ensure that the process is timely and transparent in order to maximise its credibility and usefulness. To facilitate the process of IFRIC developing well targeted and efficient interpretations the European Commission has initiated a temporary and informal Roundtable to act as a simple and efficient forum for European accounting experts to identify, at an early stage, emerging and potentially problematic accounting issues in relation to consistent application and refer them to IFRIC if there is common concern. The Roundtable, which is intended to function as a filter mechanism, will thereby complete the existing European infrastructure contributing to a proper and consistent application of IFRS and so help IFRIC to carry out its task more efficiently. The well functioning of the IFRIC due process is also important in this respect.

The comments below have been discussed with Member States in the Accounting Regulatory Committee (ARC) and also take into account our discussions with the European Financial Reporting Advisory Group (EFRAG).

Overall we welcome the issuance of the provisions in the Draft Handbook and acknowledge that since the issuance of the Draft Handbook IFRIC has already taken some measures to improve transparency, e.g. to offer web cast of IFRIC meetings. However, we still have some concerns regarding the IFRIC due process. We make reference to issues raised in the EFRAG comment letter and highlight, in the following paragraphs, our main concerns and respond to the actual questions raised in the Draft Handbook in the Appendix to this letter.

1. Composition and decision making process of the IFRIC Agenda Committee

The IFRIC Agenda Committee was established to analyse issues referred to IFRIC and support the IFRIC staff to formulate recommendations to IFRIC on whether to take an issue onto the IFRIC agenda or not. The final decision is made by IFRIC in public meetings. We recognise that the Agenda Committee functions as a filter and support mechanism for the full IFRIC committee and can thereby increase the efficiency of the process. Nevertheless, we would expect that in future the Agenda Committee operates in full transparency since we regard the initial analysis of issues as being a crucial element in the whole decision making process. The process has to be transparent meaning that Agenda Committee meetings should be held in public and that details of issues which have been submitted to IFRIC, including when they were submitted, what stage each

issue has reached and when a decision, as well as the reasons for the decisions, is expected to be made, should all be publicly available. We also believe that the composition of this Committee is important. In order to operate as an efficient preparatory group the Agenda Committee should represent all stakeholders and should be geographically balanced. Particularly we would like to see that the representation of preparers and users in this Committee is equal to the representation of the audit profession.

2. IFRIC agenda rejections

It has become evident that decisions not to add issues to the IFRIC agenda, and even more the reasoning for those decisions, are regarded as being of high practical relevance although they do not have the same authority in the IFRS literature as IFRIC interpretations. The initial objective of the IASB and IFRIC to be helpful to constituents by publishing agenda rejections has been welcomed on the one hand but, on the other hand, has created a number of questions about the due process and the authority of IFRIC agenda rejections within the IFRS literature (e.g. the question whether rejection decisions should have a retrospective effect and should be treated as errors according to IAS 8).

Whereas the Draft Handbook is clear about the authority of IFRIC interpretations (paragraphs 48 to 50) it is silent regarding agenda rejections. We therefore recommend emphasising that IFRIC agenda rejections do not have the same status as IFRIC interpretations. From a European perspective this means that they cannot be considered for the formal adoption process. The IAS Regulation (EC) No 1606/2002 is very clear and only refers to IFRSs and IFRICs as issued by the IASB².

Regarding the due process and the interaction between the IASB and IFRIC we would refer to paragraphs 40 to 42 of the Draft Handbook, which outline the IASB role in the release of a draft interpretation. For example with reference to the (tentative) rejection of the issue IAS 32 *Financial Instruments: Presentation – Classification of a financial instrument as liability or equity*, where the Board published a statement in the IASB Update, which was used as a basis for a rejection decision by IFRIC, we recommend that the Draft Handbook should be more explicit about the Board's involvement in cases of agenda decisions and in particular the due process applied.

3. IFRIC membership

We agree with the criteria for selecting IFRIC members as stated in paragraph 10 of the Draft Handbook regarding technical ability to resolve current issues and with the objective of reasonable broad geographical representation. However, we have two concerns regarding the composition of the committee.

² Article 2 of the Regulation (EC) No 1606/2002:

"For the purpose of this Regulation, 'international accounting standards' shall mean International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB)."

Firstly, we believe that the current composition of the committee is such that there is an imbalance regarding the representation of different stakeholders. We recommend a more balanced representation of all stakeholders and in particular we would like to see a higher representation from the preparers side and stress that European views need to be sufficiently considered.

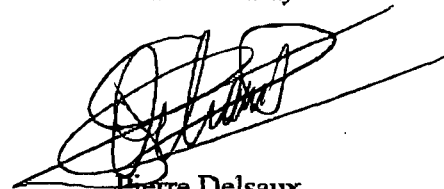
Secondly, we believe that the appointment process, which is currently carried out by the Trustees, should be much more transparent, for example by public advertisement of vacancies including detailed criteria for membership.

4. Timeliness of IFRIC interpretations

The development of IFRIC interpretations from the first analysis of an issue to the final publication takes typically between 15 to 20 months. Although IFRIC does not operate like an urgent issues task force a number of issues require a fast resolution whilst still being based on a proper consultation process. Taking note of IFRIC's statement that it is now fully staffed and operational it is our view that the process could be speeded up by increasing the frequency of meetings with the effect that more issues can be publicly discussed and be processed within a shorter timeframe.

I look forward to further discussing this issue with you.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Pierre Delsaux', written over a horizontal line.

Pierre Delsaux
Acting Director

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 refer to our comments above under 1. *Composition and decision making process of the IFRIC Agenda Committee.*

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 in general, but we observe that the criteria which have to be considered when assessing proposed agenda items are not used in a consistent way. The fact that an issue indicates significantly divergent interpretations in practice has in some cases been sufficient reason for issuing an interpretation whereas in other cases it was not. Also the rejection argument that "the IFRSs are clear", which has been used frequently, is an unsatisfactory response to an issue which obviously has been highlighted because of real complications in practice.

Another rejection argument that "the issue is on the agenda of the IASB" is also unsatisfactory when final conclusions of the IASB related to this point are not expected to be reached in the short term.

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 believe that the consultative process for issues that are not added to the agenda is important. Although being aware that certain conflicts require a timely solution, taken into account the practical implications of agenda rejections, it should be considered to extend the comment period from 30 days to at least 45 days since a longer period would allow time for more considered views to be given.

We acknowledge that for tentative decisions published in the July IFRIC Update a longer period has been granted and we regard this as an improvement.

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 fully agree that all interpretational matters in relation to IFRSs should be dealt with by IFRIC. To facilitate this, the European Commission has set up a temporary and informal Roundtable with the aim to filter issues and refer those to IFRIC which are of common concern regarding consistent application. This should not prevent anybody from referring issues to IFRIC individually.

- (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.**

There is a clear need for a limited number of interpretations even under a principle-based set of standards. IFRIC's limited resources should be used to respond to this need rather than deal with so-called pure national or local issues, which are rare in practice. Therefore we agree with the provisions in the draft handbook.