



**Australian Government**  
**Australian Accounting**  
**Standards Board**

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Level 4, 530 Collins Street  
MELBOURNE VIC 3000  
Postal Address  
PO Box 204  
Collins Street West VIC 8007  
Telephone: (03) 9617 7600  
Facsimile: (03) 9617 7608

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30 June 2006

Mr Thomas Seidenstein  
Director of Operations  
IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Tom,

**Draft Due Process Handbook for the IFRIC**

The Urgent Issues Group (UIG) has considered the proposals in the draft *Due Process Handbook*, prepared by the International Financial Reporting Interpretations Committee (IFRIC). The UIG is pleased to provide its principal views in respect of the proposals for consideration by the Trustees' Procedures Committee of the International Accounting Standards Committee Foundation.

***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?

The UIG generally supports the process set out in paragraphs 23 to 27, however a number of comments are warranted, as transparency of the entire IFRIC process is integral to acceptance of its Interpretations.

First, the membership of the Agenda Committee is determined solely by the Chairman of the IFRIC, pursuant to paragraph 22. In the UIG's view, this does not represent best governance practices. For example, it would be preferable for the IFRIC to elect the four members of the Agenda Committee other than the Chairman. Furthermore, the current members are all from the major international accounting firms. While acknowledging the important role and contribution that those firms are able to make, the balance of the Agenda Committee would be enhanced if there were fewer members drawn from those firms and members from other constituencies added. We believe that this would enable the Agenda Committee, which is crucial to the process of determining the IFRIC work

program, to consider proposed issues from a wider perspective and address concerns about the potential for undue influence by the major accounting firms.

Secondly, paragraph 24 should be amended to explicitly allow the Agenda Committee to recommend that an issue should not be added to the IFRIC's agenda, which it often does in practice. Similarly, paragraph 25 states that not all the criteria in paragraph 28 have to be satisfied as a precondition for recommendation, when it should more properly state "... although an issue does not have to satisfy all the criteria for the Agenda Committee to recommend inclusion on the IFRIC agenda."

Thirdly, paragraph 26 states that the Agenda Committee does not meet in public because it is not a decision-making body. However, the UIG considers that because of the significance of the Agenda Committee's recommendations to the subsequent IFRIC discussions on an issue, the Agenda Committee should meet in public.

Fourthly, paragraph 27 requires the Agenda Committee to report at IFRIC meetings on issues that it has considered and for which it has reached a recommendation. However, the Agenda Committee reports on issues that are still under its consideration only during a closed part of IFRIC meetings. This means that constituents trying to follow an issue put forward to the IFRIC in terms of paragraph 19 of the draft Handbook have no information about the status of the issue until such time as it reaches the IFRIC agenda in the form of a recommendation from the Agenda Committee (if the Agenda Committee does not meet in public). It could well be that the issue isn't even being considered by the Agenda Committee but instead remains under review by the IASB staff or has been referred to a Working Group or otherwise. In the UIG's experience in referring issues to the IFRIC, there have been significant delays in issue proposals being considered and a lack of communication about the status of the Agenda Committee's deliberations.

Paragraph 27 therefore should be expanded to require the Agenda Committee to provide a status report to the IFRIC in public meeting concerning the issues that it is addressing where no recommendation has yet been reached. This is all the more important where the Agenda Committee takes a number of meetings to reach a recommendation, which may be required to increase the prospect that the IFRIC can reach a consensus within the general meeting time limits stated in paragraph 31.

Finally, limits should be placed on the number of meetings of the Agenda Committee itself in trying to reach a recommendation on an issue to ensure a timely outcome. The Agenda Committee needs to consider issues on a timely basis so that the IFRIC can also address the issues on a timely basis, as is presumed in paragraph 1 of the draft Handbook. If the Agenda Committee cannot reach a recommendation within a specified number of meetings, it should report the issue to the IFRIC so that the IFRIC as a whole can consider the issue.

### *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.

The UIG supports the criteria stated in paragraph 28 but has some suggestions for extending them slightly.

Criterion (c) should identify the elimination of diverse reporting as the principal objective but should allow for a reduction of diverse reporting as an alternative. For example, an issue may have three or more possible alternative accounting treatments, and the Agenda Committee should be able to consider whether financial reporting would be improved by a reduction in the number of diverse reporting methods.

Criterion (d) refers only to the confines of “existing IFRSs”, but should refer also to the *Framework for the Preparation and Presentation of Financial Statements*. The *Framework* is not part of “IFRSs” as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Given the reference to the *Framework* in paragraph 6 of the draft Handbook, it should also appear in the paragraph 28 criteria.

Paragraph 28 includes a comment following the criteria that the IFRIC will not add an item to the agenda if the IFRSs are clear and divergent practices are not expected. The IFRIC should not use this statement as the sole reason for rejecting an issue, as the raising of an issue for consideration typically indicates that the interpretation of the IFRSs is not clear at all. If it was clear, then the issue is not likely to be referred by IASB staff to the Agenda Committee for consideration in the first place.

### ***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?

The UIG agrees with a consultation process for issues recommended not to be added to the IFRIC’s agenda. However, the significant delay between the Agenda Committee reaching a recommendation and its publication in the *IFRIC Update* needs to be resolved, given the potential impact on the accounting policies of constituents.

As we understand the process, the Agenda Committee normally meets the day before or after an IFRIC meeting (as well as at other times). The outcome of the Committee’s discussion on an issue normally is included in an agenda paper for the next IFRIC meeting (say in two months’ time, given the infrequency of IFRIC meetings). If the IFRIC then agrees with the Agenda Committee that an issue should not be added to its agenda, the proposed rejection statement is then published in the *IFRIC Update* for that meeting, to allow public comments to be considered at the next IFRIC meeting after that one, when it will confirm or change its tentative agenda decision.

One way of ensuring prompt communication of the Agenda Committee recommendations is for proposed rejection statements to be published on the IASB website as soon as they have been finalised by the Agenda Committee, say within two weeks of the Agenda Committee meeting, as well as in the *IFRIC Update* following the next meeting. This will enable constituents to assess the implications of the likely outcome much earlier than currently is the case and facilitate public input to the IFRIC’s subsequent deliberations.

Paragraph 30 states that the reasons for not adding an item to the IFRIC's agenda will be posted to the IASB website as a historical record. Until June 2006, the "issue rejection reasons" included on the IASB website under "Items not taken onto Agenda" had been collated only up to December 2004, requiring any later rejection statement to be found by trawling through on-line or printed editions of the *IFRIC Update*. The website collation ought to be updated on a regular basis so that constituents can easily find whether there is a rejection statement relevant to their issue at hand.

#### ***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.

The UIG agrees with these statements. NSSs and NIGs should take responsibility for their own Interpretations. It would not be possible for the IFRIC to consider local Interpretations for consistency with IFRSs and still address its international issues on a timely basis. Where constituents or NSSs have concerns over local Interpretations, the issue can be raised under the IFRIC's due process anyway, without the need for the IFRIC or staff to be proactive in reviewing local Interpretations as they are developed or promulgated.

#### ***Other Substantive Comments***

##### *Timeliness*

The role of the IFRIC as noted in paragraph 1 of the draft Handbook is to assist the IASB in improving financial reporting through timely identification, discussion and resolution of financial reporting issues. Although paragraph 6 states that the IFRIC does not act as an urgent issues group, it is not clear how the IFRIC itself interprets the reference to a timely resolution of issues. Given the delays in discussing and resolving some issues (including even reaching agenda decisions), the IFRIC should meet more frequently than at present.

Only six IFRIC meetings are planned for 2006, whereas in 2005 there were seven. Furthermore, the IASCF's Consultative Document *Review of IFRIC Operations*, which was issued in April 2005 for public comment, noted the concerns expressed about the capacity of the IFRIC to produce Interpretations on a timely basis and went on to assume eight to ten IFRIC meetings per year. The reduction in the number of meetings does not appear to be justified. Eight to ten meetings per year would certainly improve the IFRIC's ability to handle issues. Six or seven meetings per year mean two-month gaps between most of the meetings, which significantly delays progress to the frustration of both constituents who have raised issues for consideration or are interested in the outcomes and national standard-setters assisting with the issues. The Handbook should specify a minimum number of IFRIC meetings each year.

### *Voting requirements*

The draft Handbook specifies in paragraphs 38 and 45 that a draft Interpretation or an Interpretation (respectively) can be approved if no more than three members vote against it. As paragraph 33 specifies that a quorum is nine voting members of the IFRIC, or eight in the event of a vacancy, this means that a draft Interpretation or an Interpretation can be approved by only six votes, or five in the event of a vacancy. In the UIG's view, the Handbook should require as a minimum a simple majority of the IFRIC voting membership, that is, seven or more votes, for a draft or final Interpretation to be approved.

### *Editorial Comments on the Draft Due Process Handbook*

Paragraphs 14 and 34 both refer to IFRIC members voting in accordance with their own views and not as representatives of their firm, organisation or constituency. The voting requirements should be left to paragraph 34. Paragraph 14 should instead refer to members presenting their own views as well as the views of their firm, organisation or constituency in the discussion of issues at meetings. This would support the encouragement in paragraph 51 for members to discuss issues with associates who have an interest and expertise in such matters. The "variety of views" should be contributed to the IFRIC's discussion, rather than only assisting an IFRIC member to come to their own view.

Paragraphs 38 and 45 use different words to describe the same voting requirements for a draft Interpretation and a final Interpretation respectively. The wording should be the same. We suggest that both paragraphs conclude with these sentences (incorporating our proposal above for a minimum number of positive votes): "Voting takes place at a public meeting. A consensus is achieved when at least seven members present at the meeting have voted in favour and no more than three members present at the meeting have voted against the proposal." In addition, it would be more appropriate for the voting requirements to be included in the meetings and voting section of the Handbook (Stage 3) in a single paragraph rather than as the two paragraphs 38 and 45.

Paragraph 39 should refer to the contents of a "draft Interpretation", rather than an "Interpretation", given that it appears under the Stage 4 heading referring to the development of a draft Interpretation. Paragraph 47 should then be extended with an additional sentence to refer to the contents of a final Interpretation, for example: "An Interpretation includes the matters listed in paragraph 39 in respect of a draft Interpretation."

Paragraph 50: the reference to an "IFRIC consensus" in the first sentence would better refer to an "IFRIC Interpretation", however the sentence then could be simplified as follows: "An IFRIC Interpretation is withdrawn when an IFRS ... that overrides or confirms the Interpretation becomes effective."

### *Amendments to the Preface to International Financial Reporting Standards*

The amended title of the Preface should be simplified from that proposed. We suggest "Preface to International Financial Reporting Standards and Interpretations". There seems no reason to require the adjectives "International Financial Reporting" to be stated explicitly in relation to the Interpretations. Our suggested title means the same implicitly.

Paragraph 19(b) is proposed to be amended to refer to the "hierarchy" in IAS 8. As this term is not used in the Standard, proper reference ought to be made to the requirements for the selection and application of accounting policies that are intended to be referred to.

Please contact me if further information or clarification is required.

Yours sincerely,

A handwritten signature in black ink that reads "David Boymal". The signature is written in a cursive, flowing style.

David Boymal  
Chairman, AASB and UIG

cc Richard Humphry, Trustee, IASCF