

ICAEW REP 55/06

IFRIC DUE PROCESS

Memorandum of comment submitted in September 2006 by the Institute of Chartered Accountants in England and Wales in response to the Draft Handbook Due Process of the International Financial Reporting Interpretations Committee published by the International Accounting Standards Committee Foundation in May 2006.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales ('the Institute') welcomes the opportunity to comment on the Draft Handbook *Due Process of the International Financial Reporting Interpretations Committee* published by the International Accounting Standards Committee Foundation in May 2006. We have reviewed the Draft Handbook and set out below our response to its proposals.

WHO WE ARE

2. The Institute is the largest accountancy body in Europe, with more than 128,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.
3. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry through the Financial Reporting Council. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy.

MAJOR ISSUES

4. We congratulate the IASCF and the IFRIC on the progress they have made in working to establish the IFRIC as the single authoritative international body responsible for issuing interpretations of International Financial Reporting Standards (IFRS). In our response to the review of the IFRIC's operations in 2005, we emphasised that the objective of the IFRIC should be first and foremost to address narrowly-focused issues of interpretation that are not only urgent but involve widespread and pervasive uncertainty unlikely to be resolved in the near term without the intervention of the IFRIC. We are pleased to see that the IFRIC has indeed tended to concentrate its efforts on such issues and has made significant progress on other key Institute recommendations.
5. We broadly support the provisions of the Draft Handbook, and welcome the codification it represents. In particular, we are content with the process for selecting IFRIC members, the scope of the work the IFRIC undertakes and the voting requirements for achieving a consensus.
6. We can see no reason why IFRIC meetings are not webcast. Webcasting would improve transparency and speed the flow of information, and should be adopted by the IFRIC immediately.

7. We have concerns about the process by which IFRIC declines to take an issue on to its agenda, particularly because, in its view, the standard is 'clear'. There should be a presumption that an issue worthy of being referred to the IFRIC's attention could not have been entirely clear, because to get as far as IFRIC there must have been differing interpretations in the IFRS community. The IFRIC's conclusion that a standard is clear (highlighting which of conflicting interpretations the IFRIC believes is the correct one) will remove what some will have seen as an implicit option and thus in itself amount to an interpretation, but reached without due process.
8. Where entities have taken a different view of the issue from the one ultimately endorsed by the IFRIC as 'clear', they may be forced into a change of accounting policy, which must be classified as an error under IAS 8. This will have adverse consequences for preparers, including SEC registrants. It is therefore important that the IFRIC does not publish a de facto interpretation that has the effect of removing an implicit option without due process.
9. We therefore suggest that the one area in which IFRIC's voting procedures should be changed is in this area, so that an item is only rejected for inclusion in the IFRIC's agenda if there is sufficient unanimity amongst the IFRIC members. As such, an item should only be rejected on the same basis of voting as one that is accepted: ie, an item cannot be rejected if three or more IFRIC members disagree. We nevertheless believe that it will be necessary for IFRIC to state clearly why it has rejected the item and what it believes is the correct reading of the standard.

SPECIFIC QUESTIONS

***Question 1** 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?

10. We are generally content with the Agenda Committee process. We do not believe that it is necessary for Agenda Committee meetings to be held in public or webcast, as there are sufficient checks and balances in place to ensure that due process will not be compromised. For example, any member of the IFRIC is entitled to attend the Agenda Committee meeting, and it is the IFRIC itself that makes the final decision on whether or not to address a particular issue. We do, however, have some suggestions for improvements, discussed in paragraphs 11 to 13 below.

11. In our view, the arrangements in place regarding membership of the membership of the Agenda Committee and attendance at Agenda Committee meetings are not widely understood. These matters should be formalised and made public.
12. Under the provisions of paragraph 30, a simple majority (of IFRIC members) is sufficient to prevent an item from being accepted on to the agenda. However, this could mean that if an issue is rejected by, say, six votes to four, then members that would be sufficient in number to reject a consensus do not believe that the answer is clear. We suggest that the voting requirements for adopting an issue should be aligned with those for achieving a consensus - that is, not more than two members voting against.
13. The Agenda Committee should publish the reason why it has decided not to take an issue on to the IFRIC agenda, as set out in the Draft Handbook. Where the reason is that the existing literature is sufficient to provide an answer, this should be stated and appropriate references should be provided. However, the published reason should not seek to paraphrase or further explain the source: any such wording might be regarded as a quasi-interpretation and lead to further confusion.

***Question 2** 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.

14. We agree. While we note that the criteria in paragraph 28(d) and 28(e) have not always been met in relation to issues taken on by the IFRIC, we detect an improvement and we trust that these criteria will be applied rigorously in future.

***Question 3** 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?

15. We agree that having a consultative process for issues that are not added to the IFRIC agenda is a useful safeguard. However, we assume that in preparing to present issues to the IFRIC, the IASB staff will proactively canvass preparers and other stakeholders where necessary to try and determine whether the issue is indeed one that needs to be addressed. We suggest that this good practice should be in fact referred to in the Handbook.

Question 4 *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?*
16. We agree. However, we do not expect NSSs and NIGs to be a major source of issues for the IFRIC to consider, as borne out by, for example, the recent European Commission roundtable.
- (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.*
17. We agree that the IFRIC should not consider local interpretations if they are genuinely of local application only - for example, where they are only relevant in the context of local law. As we said in our previous response, we would expect such local interpretations to be very few and far between. However, if an issue is not really a local one, there is a risk that divergent treatments will arise. It may be that the IFRIC will need to monitor and review local interpretations for more general applicability, but we understand the resource restrictions of the IASB could restrict this. We also remain concerned at the potential problems caused by pre-clearances given by Regulators, which may amount to de facto interpretations. We suggest that IFRIC does what it can to monitor the situation in major IFRS regimes, perhaps by asking local regulators, standard setters or professional bodies to carry out the monitoring activity.

KC/DW 26.09.06