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25 July 2005

The Hon Paul A Volcker, Chairman  
International Accounting Standards Committee Foundation  
30 Cannon Street  
London EC4M 6XH

[tseidenstein@iasb.org](mailto:tseidenstein@iasb.org)

Dear Sir

Deloitte Touche Tohmatsu is pleased to comment on the *IFRIC – Review of Operations Consultative Document* (the Consultative Document).

We are supportive of the IFRIC seeking external comment on its review of operations, and generally believe that the proposals in the Consultative Document are a significant step in the right direction. However, we do have some concerns about the rigour of the IFRIC's review of its operations, and whether or not the commonly expressed concerns of constituents have genuinely been addressed.

Our detailed comments on the specific matters raised for comment, and other matters raised by the document, are contained in Appendix A to this letter. Appendix B contains details of some concerns that have been expressed to us that do not appear to have been addressed by the IFRIC in its review of its operations. However, our principal comments are as follows:

- We concur with the proposed amendment to the IASC Foundation Constitution.
- We support the proposals for streamlining IFRIC's debates but would stress the necessity for the IFRIC to avoid redebating matters that have already the support of a qualifying majority of the IFRIC.
- We remain concerned about 'scope creep' in IFRIC projects.
- While supporting the proposed processes for rejecting issues proposed for the IFRIC's agenda, we have concerns about the time the proposed approach will take.
- We concur with the IFRIC's observations on 'urgent issues'.

- We support the suggestions about involving national standard-setters and national interpretive groups, but would encourage the IFRIC to engage with regional bodies, such as the European Financial Reporting Advisory Group as well.
- We support strongly the notion that Official Observer organisations should have absolute discretion to appoint as their representative whomsoever they consider best suited for the role without regard to the existing composition of the IFRIC.

Finally, we do not believe the timing of release of this document is appropriate. To release, in May 2005, a document which contains discussions as to what might be achieved by the end of 2004 is inappropriate. The document, which we understand was used for internal IFRIC discussions in the second half of 2004, should have been appropriately updated prior to its public release, to ensure that constituents are not distracted by irrelevancies.

If you have any questions concerning our comments, please contact the under signed in Oslo at +47 23 279 253.

Sincerely,

Ingebret Hisdal,  
Chairman – IFRS Strategy Board

## Appendix A

### Comments on Matters Raised in the Consultative Document

#### Amendment to Constitution

*The Committee shall meet as and when required and nine voting members present in person or by telecommunications shall constitute a quorum. **The quorum is reduced to eight members for a maximum of three consecutive meetings if there is a vacancy on the Committee. This is not changed for any further vacancies that may overlap the first. One or two Selected IASB members shall be designated by the IASB and shall attend the meeting as non-voting observers...***

We support this change to section 35 of the IASCF constitution. We believe that when the IASCF Trustees are unable to fill vacancies on IFRIC within a short time period the ability of IFRIC to move projects forward and finalise documents should not be affected. We note that on some occasions in the past the inability to form a quorum has delayed various projects, and accordingly we believe this is a positive measure to improve the timeliness of IFRIC pronouncements. Another alternative which we believe to be appropriate would be to permit IFRIC members who are unable to attend meetings to send voting alternates.

We concur that no good purpose is served by the designation of 'one or two' Board members, and agree that the term 'selected' will enable a more appropriate allocation of this role to IASB members.

#### Capacity to Produce Interpretations

We concur with the conclusion that the production of Interpretations and Draft Interpretations since mid-2004 goes some way towards assuaging concerns about the IFRIC's capacity. However, we would stress the need for the IFRIC to endeavour to maintain a consistent level of output over time, in order to assure constituents that the IFRIC are able to produce a level of output indicative of appropriate capacity. We also note that the success of IFRIC in producing an adequate level of interpretative material should be measured by reference to public demand, rather than by the IFRIC's own internal measurements. We do believe that there is still a significant amount of unmet demand for interpretive material.

We support the proposals for streamlining IFRIC's debates. We agree with the view expressed that one source of slowness is the IFRIC's own approach to making decisions. Our observations from the *IFRIC Update* and other items on the public record lead us to believe that the IFRIC has indulged itself on many occasions in redebating issues that have been agreed by the requisite majority at previous meetings. We believe that this is a grossly inefficient use of IFRIC time, and tends to suggest to constituents that the IFRIC remain unconvinced about their previous decisions, thus resulting in a lack of confidence in the IFRIC.

Furthermore, we have noted that some IFRIC projects have been significantly plagued by 'scope creep' issues. We believe that in forming a recommendation to add an item to the IFRIC's agenda, the Agenda Committee should be responsible for defining the scope of the issue to be addressed clearly. At the time the decision to add the item to the agenda is reported to IFRIC, the full IFRIC should be asked whether they agree with the scope as has been defined. From that point on, the development of a Draft Interpretation should focus only on the scope as defined at inception, and further issues should only be added to the project in the rare case where an IFRIC project cannot be completed without the resolution of other issues. The scope of the Draft Interpretation should be revisited when the IFRIC considers the

**Appendix A**

Comments on Matters Raised in the Consultative Document

comment letters received, as constituents may raise issues that indicate a redefinition of the scope is required to operationalise the requirements.

We believe that when IFRIC members dissent, they should be actively involved in ensuring their views are captured in the Basis for Conclusions at Draft Interpretation stage in order to ensure constituents are able to consider adequately the range of opinions of IFRIC members. Whilst we acknowledge that IFRIC members may not wish to dissent formally at the Draft Interpretation stage, we believe that the inclusion of the reasons for their possible dissent in the Draft Interpretation is critical to the smooth running of due process. We note that this will further limit the risk of re-exposure because, if the minority view of IFRIC is held by a majority of constituents, it would be possible for the IFRIC to develop a final Interpretation based on the minority view expressed in the Draft Interpretation without the need for re-exposure.

We agree that the IFRIC should not take on standard-setting type projects such as service concessions again. Furthermore, we believe it is a responsibility of the Trustees as part of their oversight of the IASB to ensure the IFRIC is not again asked to take on such inappropriate projects.

We concur with the IFRIC that in order to achieve the desired capacity, a greater allocation of staff resources is required. We urge the Trustees to ensure this staff allocation is made, and is not compromised by future staffing needs on IASB projects. This is critical to ensuring that constituents' faith in the IFRIC's capacity is improved and maintained.

We agree with the IFRIC that the ability to take advantage of work done by others (including accounting standard setters and regulatory bodies) should be explored to the fullest degree. We also note that the IFRIC can effectively take advantage of work performed by other bodies. Working with other organisations in this way will both enhance the IFRIC's capacity, and enhance constituent support for IFRIC as the wide pool of individuals actively contributing to the IFRIC will be observable.

**Machinery for rejecting issues proposed for its agenda**

We support the IFRIC in developing a more formal approach to the rejection of issues, and the publication of more detailed reasons for the rejection of issues in *IFRIC Update*.

The proposed approach, in which Agenda Committee recommendations are tabled for rejection at one meeting, with the IFRIC making formal decisions on them at the next, appears to us to be an appropriate due process, however, we are concerned as to the time this process will take. Based on our experience, it can be up to two months after submission before a fully developed paper on an issue is presented to the Agenda Committee. The proposed process takes another two months before public documentation of the decisions made. Accordingly, between the time of submission and the time of formal rejection, there could be at least a four month delay. We acknowledge that in tabling the papers at the meeting before, this information comes into the public domain after just three months. However, we still believe this is a long time, particularly in situations in which the Agenda Committee believes the answer to be readily obtainable from existing IFRS. The very fact that an item is before the Agenda Committee lends credence to the view that there is more than one possible way of viewing the issue, and accordingly makes it difficult to enforce a particular view (irrespective that IFRIC may subsequently confirm that view).

## Appendix A

### Comments on Matters Raised in the Consultative Document

Therefore, in addition to the process suggested we believe the IFRIC Agenda Committee needs to determine appropriate methods for communicating its unconfirmed decisions to a wide range of stakeholders on a timely basis. One alternative is to circulate an *IFRIC Update* style document – our expectation would be this would detail the technical issue, whether it had been recommended to be taken onto the agenda, and if not (1) why not; and (2) what the tentative view as to the appropriate accounting treatment is. We do not see this as being in anyway more problematic than the *IFRIC Update* itself which communicates tentative decisions.

We note that explanations of why items have not been taken onto the agenda do need to explain the appropriate accounting treatment. A statement that ‘existing guidance is adequate’ is unhelpful unless it details what the ‘existing guidance’ so ‘adequately’ implies. Likewise ‘a lack of evidence of diversity in practice’ is unhelpful – if a constituent is proposing an alternative accounting treatment to that commonly applied in practice, a statement that there is not currently diversity in practice in no way tells the constituent whether what they are proposing is appropriate. Taken to its most extreme, if the constituent then adopts their alternative accounting treatment and diversity in practice emerges re-submission to the IFRIC Agenda Committee could result.

We note that the proposed amendment to paragraph 30 states that ‘the IFRIC generally will publish the reasons for rejecting issues’. We see no good purpose for the inclusion of the word ‘generally’ in this sentence other than to diminish responsibility. The only valid reason we could fathom for not publishing the reasons for rejecting issues would be where the issue has already been discussed and rejected. We suggest that to ensure the IFRIC is not burdened by this the sentence should be re-drafted as follows ‘the IFRIC ~~generally~~ will publish its reasons for rejecting new issues brought to its attention’.

We agree that once the process proposed by the IFRIC is complete, the reasons for rejection should be posted on the website as an historic record, and the IFRIC should not be obliged to update that list, nor should the list form part of IFRS. However, we would request that this list be posted on the IASB’s website in a more predominant position than its current location. We note that there is scope to integrate such a database with the one suggested in the *Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationship with the IASB* (paragraph 3.7, 3.16 and 7.2), provided this database is in the public domain.

We urge the IFRIC to seek public comment on the effectiveness of this process after it has been in operation for 12 months.

### **Possible other mechanisms to address urgent issues**

We concur with the IFRIC that it should not become an ‘urgent issues’ group. Where an urgent issues group operates within a single cultural and business environment, with a well established national accounting framework, it is possible for that group to provide guidance that could be accepted by constituents. In an international environment with a wide range of stakeholders from different backgrounds, it appears to us less likely that widespread constituent support could be gained without due process. This is especially true in the current environment in which many jurisdictions are involved in a ‘learning period’ with respect to IFRS. Furthermore, we concur with the view of the IFRIC that where such issues are genuinely ‘urgent’ the absence of due process would not enable turn around in a time frame that would respond to the ‘urgency’ of the need.

## **Appendix A**

### Comments on Matters Raised in the Consultative Document

#### **The involvement of accounting standard-setters and other interpretative bodies**

We support a situation in which accounting standard-setters bring issues to the IFRIC and/or assist with the handling of those issues through IFRIC's due process. We believe the involvement of a wider range of technical bodies in IFRIC matters will assist the IFRIC in gaining more widespread support for its work. The involvement of the German Accounting Interpretations Committee staff in the project on waste electrical and electronic equipment demonstrated the effectiveness of this approach.

We believe that the fostering of a liaison relationship in respect of development of domestic implementation guidance ('interpretations'), as described in the consultative document, is appropriate. We note that the effectiveness of such relationships will depend on the timeliness with which IFRIC staff are able to respond. Accordingly, we reiterate our support for increased staffing levels for the IFRIC. We note that while these liaison relationships may in some instances be difficult to manage (particularly where time zones or language problems are a barrier to effective communication) we believe they will be mutually beneficial to the IFRIC and the National Standard-Setters (NSSs)/National Interpretative Groups (NIGs). In addition to working with NSSs/NIGs, we would encourage the IFRIC to engage regional bodies, such as the European Financial Reporting Advisory Group, which may be able to assist the IFRIC in identifying and resolving interpretive issues.

Where NSSs/NIGs issue domestic implementation guidance, we agree those NSSs/NIGs should take full responsibility for doing so, and should not imply IFRIC endorsement. We would take this one step further and request that they contain a specific statement to the effect that they do not have formal IFRIC endorsement where those NSSs/NIGs operate in an IFRS/quasi-IFRS environment. We do note that perception in practice, based on the relationship discussed above, is likely to be that the document does have at least some form of negative assurance (unless there has been significant publicity to the contrary on a particular topic). We do not view this as different to the *IFRIC Update* – many constituents treat the contents of that document as authoritative guidance even though it clearly states that it is not. We believe that providing it is clearly stated IFRIC endorsement has not been given, the public perception issue should be managed by NSSs/NIGs rather than concerning the IFRIC.

#### **Selection Procedures for the Admission of Issues**

We note that the invitation to comment does not request specific comment on this section of the Consultative Document. Broadly we agree with the comments in this section.

However, we are concerned that the issue of whether the IFRIC Observers should be chosen solely at the discretion of the organisation they represent, without regard to the composition of existing IFRIC membership, has not been resolved. It seems to us that issuing a consultative document which leaves questions unanswered and does not clarify the Trustees' view on the matter raised is inappropriate. We believe that organisations with formal Observer status should be able to appoint their delegate without regard to the make up of existing IFRIC members. This will enable the organisations to choose those individuals that have the skill set best matched to making a useful contribution to the IFRIC and to the organisation they represent as a result of their IFRIC involvement.

## **Appendix B**

### Comments on Matters not Raised in the Consultative Document

#### **The Role of the IFRIC**

It has come to our attention in the course of recent months that many constituents are confused as to the role of IFRIC. It appears that much of that confusion has resulted from agenda choices made by the IFRIC. In this Appendix we seek to explain the issue by reference to various examples from the last 12 months, and make recommendations as to how the IFRIC could avoid some of the criticisms of its activities.

We note that while the constitutional mandate of the IFRIC is in fact quite broad, constituents generally believe the direction of the IFRIC should favour the earlier parts of paragraph 37(a) over the latter parts. We believe that interpreting IFRS is widely considered to be more important than undertaking other miscellaneous tasks at the request of the IASB. We believe some IFRIC activities do not amount to interpretation of IFRS and are concerned about the impact this expectation gap is having on support for and acceptance of IFRIC pronouncements.

We understand that the IFRIC is, in some quarters, seen to be operating outside of its mandate, and we are therefore concerned that certain organisations may seek to undermine the output of the IFRIC on this basis. Accordingly, we strongly encourage the IFRIC to consider the consistency of its activities with its mandate, and to reconsider its communications policy in order to ensure its pronouncements are not undermined by any procedural issues (real or perceived).

#### Examples

##### *IAS 41 Agriculture*

While the drafting of amendments to IAS 41 with respect to the recognition and measurement of biological assets falls within the written mandate to ‘undertake other tasks at the request of the IASB’, we consider it to be an inappropriately delegated task – both in nature and in timing. It seems inappropriate that the IASB should delegate to the IFRIC the task of amending a standard to clarify the meaning of the fair value principles therein, when fair value principles are in fact central to much of the IASB’s work. We note that as the amended standard is not intended to apply for first time adoption in 2005, it would seem more appropriate for the IFRIC to have focussed in the latter half of 2004 on interpretive issues that would have been able to be resolved with effect for entities adopting IFRS in 2005.

##### *D6 Multi-Employer Plans*

The release of D6 raised several concerns about the activities of the IFRIC. The first was that this document seemed to be addressing what is largely an audit issue – and was trying to encourage more rigorous application of existing requirements than was historically the case. We do not believe it is appropriate for the IFRIC to issue pronouncements of this nature, as these issues should be addressed by auditors and regulators, and the guidance has little interpretive value. In addition, the draft interpretation appeared to be endeavouring to limit the situations in which the multi-employer plan exemption is applied, and was issued almost concurrently with the IASB document *Amendments to IAS 19 Employee Benefits Actuarial Gains and Losses Group Plans and Disclosures*, that in fact extends the definition of multi-employer plans in group situations. We have not identified any attempts by the IASB or the IFRIC to explain the interaction between these documents, and on first reading they appeared to be contradictory. While we note that the IFRIC is not pursuing any final Interpretations as a result of D6, the communication strategy employed at the time was inadequate and unhelpful.

**Appendix B**

Comments on Matters not Raised in the Consultative Document

*Recommendations*

We believe that many of these issues are a direct result of resource issues being experienced by the IFRIC. We strongly believe that one outcome of the internal review currently being conducted should be a proposal to the Trustees providing a realistic outline of IFRIC's resource requirements. We strongly recommend that the Trustees enhance the dedicated resources of the IFRIC.

We believe that in preparing IFRIC papers, media releases and other documents, the IFRIC must ensure the following items are discussed.

1. Justification for activities taken onto the agenda, prepared with similar rigour to that for those rejected, justifying the activity both in terms of the constitution and in terms of the public interest more generally.
2. Where appropriate, reference to existing pronouncements that are being interpreted. Where this is not appropriate, the justification given in response to point (1) above will need to be more robust, as where the IFRIC is doing something other than interpreting existing pronouncements the perception that they are operating outside their mandate must be managed.
3. Where the IFRIC is endeavouring to amend pronouncements at the same time as the IASB are considering amendments to those pronouncements, the IFRIC and the IASB should issue joint statements clarifying the interaction between the projects.

We believe that such improved communication will improve the public perception of the IFRIC and its activities, without significant additional demand on resources.