

2 August 2005

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

Dear Mr Seidenstein

**IFRIC—Review of Operations: Consultative Document**

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the IASB paper *IFRIC—Review of Operations: Consultative Document*. EFRAG welcomes IFRIC's decision to review its processes and operations, we support the decision to consult publicly on the tentative conclusions of the review, and in general we support those tentative conclusions. Our comments on the paper are set out below.

- 1 A number of European commentators are very concerned about the IFRIC's ability to cope with the demands that they believe will be placed on it in the coming months with large numbers of European companies applying IFRS for the first time.
  - (a) There is a lot of pressure on Europe to ensure that IFRS are applied consistently in the EU and this, some believe, will result in an increased number of requests for IFRIC interpretations. Some of the issues involved will not merit an interpretation, but others will and the result will be, some believe, that IFRIC will be asked to address more than the dozen or so issues a year it is currently resourced to handle. During our discussions with the IFRIC we have been assured that it is ready and willing to increase its resources to the extent necessary to meet the demand for interpretations. We are placing great reliance on that assurance.
  - (b) We have the impression that at least some of the demand for interpretations that will come from Europe will be for 'quick response' interpretations (in other words, interpretations that are issued well before the 7 to 12 months it currently takes the IFRIC to issue an interpretation). The IFRIC is currently an emerging issues mechanism (rather than an urgent issues mechanism) and the proposal in the paper is that it should remain an emerging issues mechanism. If there really are issues arising from IFRS that need to be addressed quickly, it does not seem unreasonable to expect those issues to be addressed. On the other hand, it is difficult for the IASB to provide a quick response whilst at the same time meeting the highest standards of transparency and due process. On balance, we agree with the IFRIC's decision not to develop an urgent issues mechanism.
  - (c) We are already seeing evidence in Europe that a number of different bodies are vying to issue non-mandatory interpretations and other forms of implementation

guidance. That could mean that, in a few years, there will be many sources of European guidance. This concerns us because the more sources of accounting literature there are:

- the more complex things become for preparers, auditors and users;
- the more likely it is that different guidance will be issued on the same subject, which would lead to inconsistent practices; and
- the more difficult it will be to prevent the European financial reporting framework moving away from a principles-based high-level framework towards a much more detailed, rules-based framework.

For that reason we were pleased to see (from paragraph 47 of the paper) that “the IFRIC does not support proliferation of sources of interpretation.” With that in mind, we suggest that paragraphs 42-50 of the paper should be amended to make it clear that a national standard-setter should not publish an interpretation unless it relates to a very narrow, local issue. We also suggest that the paper should state that all other interpretational matters are best left to the IFRIC.

2 We have had a number of concerns about the IFRIC agenda process. In particular we believe:

- it is essential, for a standard-setter of the IASB's reach, that all its important agenda decisions are taken by groups representative of all stakeholders. However, the IFRIC Agenda Committee appears not to be a balanced representative group;
- it is also essential that the standard-setting process is transparent. In our view that means, inter alia, that all significant meetings should be held in public. However, the IFRIC Agenda Committee does not meet in public; and
- another important prerequisite, if the IFRIC's procedures are to be fully transparent, is that the public should know which issues are being studied by the IFRIC or one of its committees and the public should also know exactly what stage that issue has reached in the IFRIC's processes. However, currently it is not known which issues have been submitted to the IFRIC for consideration until the IFRIC Agenda Committee has decided whether or not to recommend that the issue be added to the IFRIC's agenda. Experience shows that this can mean that the issue will remain out of sight of the public for many months (at least eight months in one case we know of). (Incidentally, it has been suggested to us that this type of delay and the lack of information released during the delay is one of the main reasons why some European commentators believe that mechanisms other than the IFRIC are needed to provide the guidance and interpretations that Europe needs to apply IFRS properly.)

We understand that a number of changes have recently been made to the IFRIC agenda decision process. In particular, the IFRIC Agenda Committee now in effect makes only a recommendation as to whether an issue should be taken on to IFRIC's agenda; the actual decisions are taken by the IFRIC after exposing the Agenda Committee's recommendation and draft rationale for public comment. This, it has been suggested to us, addresses the concerns mentioned in our first two bullets above because the IFRIC does meet in public and is a representative group. We agree that

such a change helps—and for that reason we suggest those changes are reflected in the IFRIC's formal procedures handbook. However:

- it would still be an anomaly to have one part of the IASB's processes opaque when its other processes are so transparent. Either the IFRIC Agenda Committee's work matters, in which case it should be subject to the same high standards as the rest of the IASB's work, or it does not matter, in which case perhaps the committee should be disbanded. We think the Committee continues to have an important role to play, and therefore that its membership should be representative and its processes transparent;
- those members of the IFRIC that are also on the IFRIC Agenda Committee are much more familiar with the issue than those not on the Agenda Committee and, as a result, are in a much better position to lead the discussion and persuade than the non-Agenda Committee members. For this reason, the lack of balance of the Agenda Committee remains a problem; and
- the recent changes do not address the concern referred to in our third bullet.

We therefore suggest that:

- the IFRIC Agenda Committee's meetings are held in public and its membership is changed so that it is representative of all the stakeholders; and
- the IFRIC should publish details of all issues submitted to it for consideration, together with an explanation of exactly what stage the issue is at in the agenda decision process, what if anything is causing a delay, and when a final decision is expected to be taken.

3 Paragraph 27 of the IFRIC Preface sets out the criteria that will usually be used to determine whether an issue should be added to IFRIC's agenda.

- (a) Paragraph (d) states that one of the criteria is that the issue should be unrelated to a Board project that is expected to be completed in the near future. We recognise that the IFRIC's resources are scarce and need to be managed carefully, but if there is an implementation problem arising from an extant standard, that problem does not go away until the standard is replaced. Therefore, in our view criterion (d) should be amended so that it excludes only those issues relating to a Board project that is expected to be completed and implemented before an interpretation could be completed and implemented.
- (b) If all the IFRS and amendments thereto that the IASB issues had to be applied retrospectively, the amendment we have suggested in (a) above would fully address our concerns about criterion (d). However, a number of IFRS are required to be applied prospectively only to transactions taking place after the effective date. In such cases, if a significant and widely applicable implementation issue arises in respect of the 'old' IFRS, that issue is just as deserving of an interpretation as any other. For that reason we think there should be a further amendment to paragraph 27(d) of the Preface to differentiate between replacement/amendment standards that are to be applied only to new transactions and those that are not.

Both the above concerns could be addressed by amending criterion (d) to as follows:

"(d) be unrelated to a Board project that is expected to be completed in the near future and the resultant new standard or amendment is expected to be applied to all past transactions (ie if a Board project exists that is expected to resolve the issue in a short period, the IFRIC is unlikely to add the issue to its agenda unless it is expected to take longer to complete the project that will resolve the issue than it would take to issue an interpretation)."

- 4 We would strongly advise the IFRIC not to use the language in paragraph 40 ('abusive accounting', 'short-term abuse', etc) in its final report. The vast majority of entities do not set out to abuse and it is unhelpful to frame arguments and other comments in a context that is not relevant to that vast majority.
- 5 We note that the paper does not discuss the length of IFRIC comment periods. This, we understand, will be dealt with separately in an IFRIC Due Process Handbook which will be issued in draft form for comment. We think IFRIC comment periods should usually be 60 days. We look forward to having the opportunity to make this comment when the draft Handbook is issued.
- 6 We note that the IFRIC has concluded that it should in the future avoid taking on complex standards-type projects. We strongly support this conclusion.

We hope that you find the above comments helpful. If you wish to discuss them further, please do not hesitate to contact Paul Ebling or myself.

Yours sincerely

Stig Enevoldsen  
**EFRAG, Chairman**