

6 October 2005

EFRAG Supervisory Board
commentletter@efrag.org

By E-mail

Dear Members

Achieving Consistent Application of IFRS in the EU: A discussion paper

Deloitte Touche Tohmatsu is pleased to comment on the European Financial Reporting Advisory Group (the EFRAG's) Discussion Paper *Achieving Consistent Application of IFRS in the EU* (referred to as the Discussion Paper). Our responses to the specific questions raised in the Discussion Paper are set out in the Appendix to this letter.

Whilst we have some reservations about certain detailed aspects of the discussion paper, we support the EFRAG in taking a pro-active role in addressing the issues arising in Europe as a result of the introduction of International Financial Reporting Standards (IFRS). We believe the discussion paper strikes an appropriate balance between consideration of the needs of preparers of financial reports in Europe and not compromising the principles which underlie the acceptance of IFRS (such as due process).

We share EFRAG's view that no changes or additions should be made to European GAAP without there being a proper due process that enables all stakeholders to have their say, and its concerns about the need to keep the number of sources of European GAAP to a minimum.

Consequently we do not support the establishment of a European interpretation group. Nor do we support the establishment of a European urgent issues group as we believe the output from such a group would in practice amount to interpretations and it would not be possible to apply due process to the urgent resolution of accounting matters.

On the other hand, we recognise that preparers of financial statements are concerned that the judgements they reach in implementing IFRS may not be consistent with their European (and, indeed, non-European) peer group and other stakeholders are concerned about the sufficiency of existing mechanisms to support preparers in pursuit of consistent implementation of IFRS in Europe.

We also acknowledge that conflicts can arise between standards endorsed by the EU and the many different legal systems in EU member states and there is a need for a European mechanism to facilitate their resolution.

We therefore support the establishment of a European IFRIC support mechanism on the basis of our understanding of how it would operate, as described in the following paragraph. We agree with EFRAG that such a mechanism could be of substantial assistance to IFRIC in dealing with its workload, and therefore could alleviate the concerns of those commentators who believe IFRIC will not be adequately resourced to deal with European demand. By bringing together a wide and diverse group of experienced persons, it would also facilitate the sharing of information and could accelerate the emergence of best practices in Europe that will promote consistent application of IFRS in the region.

Our understanding of the European IFRIC support mechanism described in the paper is that it would be comprised of a wide group of experienced persons from a diverse range of backgrounds, including regulators, preparers, users and auditors. The support mechanism would receive submissions from a range of European stakeholders. The submissions would ask about the accounting treatment for a particular type of transaction or arrangement, and might propose a range of alternatives, together with technical justification for those alternatives. The secretariat to the support mechanism would present the issues to the support group, possibly with further technical analysis, and in a manner which would ensure the anonymity of the submitting party. The support mechanism would determine whether it believes the issue merits an interpretation of IFRS. If it believes the issue does merit an interpretation but is limited to a single jurisdiction (a situation which we expect to be rare), the issue would be referred to the national standard setter or the national interpretations body. If it believes the issue does merit an interpretation which has wider application the support group would refer the issue to the IFRIC, which may involve completing a more detailed analysis of the technical issues prior to the submission to IFRIC. If it believes the issue does not merit an interpretation it would be referred back to the party that raised it with an explanation as to why it has been concluded that the issue does not merit an interpretation. If our understanding of the proposed support mechanism is incorrect, this may affect our support for the proposals.

We support the proposal that the 'IFRIC support mechanism' should submit fully developed analysis, including alternative approaches, to IFRIC as this would enhance knowledge sharing and reduce IFRIC's workload. However, we do not believe it is appropriate for the IFRIC support mechanism to make recommendations to IFRIC on the approach to be taken except where the issue has previously been rejected by the IFRIC agenda committee.

We are also concerned about the responses the IFRIC support mechanism might give to constituents to advise them why an item is not appropriate for the agenda. Such conclusions lack the due process of the IFRIC's agenda proposal rejection mechanism but are likely to end up in the public domain. Consequently it will be very important for such conclusions to be accompanied by clear health warnings that they can only be regarded as guidance in these specific circumstances and do not seek to represent or replace any conclusions that IFRIC or the IFRIC agenda committee might themselves have reached.

For the same reasons, we believe it is important that the meetings of the support mechanism should not be held in public. However, publishing details of the issues

under consideration and the categorization of the decisions reached would help ensure European constituents are kept informed and help preparers to know whether the topics causing them concern are being addressed more widely.

We believe that the widest possible consultation with a range of interested groups would greatly benefit the EFRAG deliberations. A noteworthy omission to the list of parties consulted in footnote 3 to paragraph 1.4 is any group representing non-regulatory users of financial statements. Given that the focus of IFRS is quality financial reporting to public markets, this is a concerning omission. We believe the EFRAG should actively seek the input of such groups before finalizing its proposals.

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

4.2 *As explained in paragraph 2.4, although a number of claims are being made about the position in Europe, we need to understand the nature and number of the implementation issues that are arising in Europe if we are to understand the true position. With that objective in mind, please could you provide details of the real-life IFRS implementation issues that are concerning you.*

We have encountered a large number of implementation issues which have proved complex to resolve, and necessitated lengthy and wide ranging consultation processes. We note that as a matter of necessity, our extensive consultation procedures must take account of the views of those outside of Europe. While in principle the resolution of these issues is similar to the resolution of issues under previous GAAPs, such a widespread change of accounting framework dramatically increases the scale of technical issues encountered.

4.3 *As explained in paragraph 2.5, it has been suggested by some commentators that, in order for Europe to be implement IFRS consistently, there will need to be a considerable increase in the number of IFRIC interpretations issued.*

(a) *Do you believe there is a need for a substantial increase in the number of interpretations?*

No. We believe that many preparers of financial reports do not have the capacity to deal with a significantly greater number of published interpretations than the IFRIC is proposing as its maximum likely output. For each interpretation issued, diligent companies will work through the interpretation to determine whether that interpretation applies directly or by analogy in preparing their financial report. While all preparers would welcome interpretations relating to particular issues they have encountered in practice, none would welcome an onslaught of interpretations of which only a few are relevant to them. Therefore we do not believe a greater number of interpretations is necessary, rather that care should be taken to ensure the IFRIC prioritises its agenda to address the most widespread and relevant issues as a priority.

(b) *If you do, which of the real-life issues identified by you in response to paragraph 4.2 do you believe are significant enough to merit an interpretation?*

Not applicable.

(c) *The IFRIC has stated that it is not currently inundated with requests for interpretations and that a capability to issue 12 interpretations a year is currently sufficient to meet demand. Others have asserted that the number of issues meriting an interpretation is much greater than that, which suggests that issues are arising that are not being brought to the IFRIC's attention.*

(i) *Which of the issues that have been highlighted in response to paragraph (b) have been brought to the IFRIC's attention?*

(ii) *If some of the issues have not been brought to the IFRIC's attention, why have they not been?*

Whilst we have encountered, and continue to encounter, a large number of complex issues, our consultation processes reveal the vast majority of these to be matters of implementation requiring the exercise of judgement rather than interpretations requiring additions to the body of European GAAP.

4.4 One much debated issue (see paragraph 2.6) is whether some of the IFRS implementation issues arising in Europe are urgent issues that merit a quick response (in other words, that merit a formal response more quickly than the processes of the IFRIC permit).

(a) If you have provided some real-life implementation issues in response to question 4.3(b) above, could you please state whether you believe any of them are urgent issues that merit a quick response.

(b) Could you also please explain what it is about the issue that leads you to conclude that they are urgent issues that merit a quick response?

We do not believe the development of an urgent issues mechanism in Europe is appropriate and would not support the development of such a mechanism. As we noted in our submission to the IASCF trustees on the IFRIC Review of Operations (dated 25 July 2005) 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. We note that the European environment is not homogenous, and contains a wide range of cultural and business practices. Therefore our comments made in respect of the proposal for a global urgent issues mechanism apply equally to any proposal for a European urgent issues mechanism. We do not believe accounting issues can be resolved on an 'urgent issues' basis in a manner which will ensure they gain widespread support.

4.5 This paper takes the view (in paragraph 3.5) that enforcement/audit and standard-setting should be kept separate and that, as a result, although the audit and enforcement functions play a very important role in ensuring that IFRS are applied consistently, it would not be appropriate for those functions to be the main way of addressing potential IFRS implementation issues. Do you agree? If you do not, please could you explain your reasoning.

We agree that the role of audit and regulatory functions in the implementation of IFRS is primarily to ensure compliance. Audit functions have a key role in addressing potential IFRS implementation issues in that they are usually the first port of call for entities in trying to resolve an issue. In some cases these issues are able to be resolved by the technical departments of audit firms, bringing to bear on a situation the collective knowledge obtained from servicing other entities. Others are recommended for consideration by the IFRIC. It is rare that an issue would be submitted to the IFRIC by a 'preparer' without that entity first seeking the view of their auditor.

4.6 *This paper suggests (in paragraph 3.8) that Europe should proceed on the basis that the IFRIC will ensure that it is at all times resourced sufficiently to prevent a backlog of European issues meriting an interpretation arising. Do you agree with this suggestion? If you do not, please could you explain your reasoning.*

It is our understanding that the IASCF Trustees have undertaken to resource IFRIC appropriately at all times. We believe that until proven otherwise EFRAG should assume that the IASCF Trustees will adhere to this undertaking. We do believe that the suggested IFRS support mechanism could be of significant assistance in this regard.

4.7 *This paper concludes (in paragraph 3.14) that, if the proposition referred to in paragraph 4.6 is accepted, Europe should not issue interpretative guidance—not even if there is a substantial increase in demand from Europe for interpretations. Do you agree? If you do not, please could you explain your reasoning.*

We agree and believe that if (as suggested in paragraph 4.6) IFRIC is able to prevent a backlog of European issues building up there is no need for separate interpretive guidance to be issued in Europe. We believe that if the IFRIC proves itself able to meet demand, all interpretive matters should be dealt with by the IFRIC.

4.8 *This paper suggests (in paragraph 3.16) that, if the proposition referred to in paragraph 4.6 is accepted, Europe should not issue implementation guidance. Do you agree? If you do not, please could you explain your reasoning.*

We agree.

4.9 *Paragraphs 3.17-3.20 discuss the possibility of Europe setting up an urgent issues mechanism should the responses to paragraphs 4.2-4.4 show that there are genuinely urgent issues arising in Europe that merit a quick response. The discussion concludes that a European urgent issues mechanism should not be set up even if there are genuinely urgent issues arising in Europe. Do you agree? If you do not, please could you explain your reasoning*

We agree with this proposal for the reasons articulated in response to question 4.4 above.

4.10 *This paper suggests (in paragraphs 3.21-3.29) that Europe should set up an 'IFRIC support mechanism' of the type described in those paragraphs if the responses to paragraphs 4.2-4.4 were to suggest a need for it. Do you agree? If not, please give your reasoning.*

We agree. If IFRIC, including the IFRIC agenda committee, is adequately resourced, the workload for such a support mechanism may be limited. On the other hand, the existence of a support mechanism could make the adequacy of IFRIC resourcing and the avoidance of a backlog of European issues much easier to achieve. It could also facilitate the sharing of knowledge and the emergence of best practice in Europe that will promote consistent implementation of IFRS in the region.

4.11 The appendix to the paper discusses one particular aspect of the IFRIC support mechanism suggestion—whether the mechanism would publish the suggested solutions it would send to the IFRIC. The tentative conclusion of the discussion is that the suggested solutions should not be published. Do you agree? If you do not, please could you explain your reasoning.

As noted in our covering letter, we believe it would be helpful for the IFRIC support mechanism to submit fully developed analysis including alternative approaches to IFRIC. However, we do not believe it is appropriate for the IFRIC support mechanism to make recommendations to IFRIC on the approach to be taken except where the issue has previously been rejected by the IFRIC agenda committee, in which case we believe that the IFRIC support group should meet in public to discuss the issue, and should disseminate the preferred approach arising from those discussions to the public.

We have similar concern about the responses the IFRIC support mechanism might give to constituents to advise them why an item is not appropriate for the agenda. Such conclusions lack the due process of the IFRIC's agenda proposal rejection mechanism but are likely to end up in the public domain. Consequently it will be very important for such conclusions to be accompanied by clear health warnings that they can only be regarded as guidance in these specific circumstances and do not seek to represent or replace any conclusions that IFRIC or the IFRIC agenda committee might themselves have reached.