

Mr. Thomas Seidenstein
Director of Operations
International Accounting Standards
Committee Foundation
30 Cannon Street

London EC4M 6XH
United Kingdom

Düsseldorf, 8 August 2006
542/552

Dear Mr. Seidenstein

Re.: Draft Due Process Handbook for the IFRIC

We appreciate the opportunity to comment on the draft Handbook mentioned above and would like to submit our comments as follows:

General Remarks

In principle we support the proposed development of a Due Process Handbook for the IFRIC. However, we do not agree with the implementation of an Agenda Committee together with the proposed Agenda Committee process set out therein. In our opinion, this would result in both a severe lack of transparency of the due process itself and in delayed publication of guidance.

Furthermore, we believe that all publications by the IFRIC, which either have, or might have authoritative character, should undergo the complete due process. Therefore, the IFRIC should be bound to give technical opinions solely in the form of Interpretations.

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?

As we have noted under General Remarks, we do not support the proposed implementation of an Agenda Committee. It is IFRIC's task to assist the IASB in improving financial reporting through timely identification, discussion and resolution of financial reporting issues within the Framework of International Financial Reporting Standards (IFRSs). Thus, it is imperative that IFRIC's procedures are transparent, lean and effective. In our opinion, the existence of the Agenda Committee and, especially, the Agenda Committee process set out in paragraphs 23–27 necessarily detract from this aim. The fact that the IFRIC Agenda Committee does not meet in public (paragraph 26) impairs the transparency of its opinion forming process.

Furthermore, the IFRIC Agenda Committee consists, as a minimum, of the Chairman and four IFRIC members selected by the Chairman (paragraph 22), i.e. it is a subset of IFRIC. Thus, some IFRIC members are precluded from airing their views, whilst others could act as a kind of filter. The composition of the Agenda Committee is left to the Chairman's discretion, further reducing transparency. We believe that the staff should be able to make a preliminary assessment as to whether proposed agenda items fulfill the criteria set out in paragraph 28 on its own, so that there is no need for an additional committee.

Furthermore, we believe that financial reporting issues submitted to IFRIC will generally have been discussed in depth by the parties involved beforehand. Thus, following preliminary assessment by staff, all such issues require clearance, necessitating intensive discussion by IFRIC itself.

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.

We reject the criterion set out in paragraph 28(e); namely that a proposed item should be added to the agenda only when it is probable that the IFRIC will be able to reach a consensus view on a timely basis. Apart from the fact that determining prob-

ability is highly subjective, the IFRIC Draft Due Process Handbook does not establish how rejected issues are to be dealt with. Therefore, there is a danger that important controversial issues will neither be added to the agenda nor submitted to the IASB for resolution. We strongly suggest the IFRIC add proposed issues to its agenda, even when it appears probable that the IFRIC will not be able to reach a consensus view on a timely basis. Alternatively, the procedures could establish a requirement to pass such issues immediately over to the IASB. This would be consistent with the rationale underlying paragraph 31.

Furthermore, we would appreciate the IASCF providing more guidance concerning the interpretation of certain criteria set out in paragraph 28, i.e. the meaning of 'wide-spread' (paragraph 28(a)) or 'narrow' implementation or application issue (paragraph 28(d)), for example in a Basis for Conclusions.

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?

As already mentioned, we consider it important that all publications by the IFRIC, which either have, or might have, authoritative character, undergo the complete due process in order to achieve the transparency required and ensure high quality outcomes. Therefore, the IFRIC should be required to publish technical statements solely in the form of as Interpretations.

Consequently, the IFRIC Agenda Rejections should not include the underlying rationale or other technical arguments. This is especially true when the IFRIC rejects an issue because it believes the standard is clear. In such cases, it has been current and past practice for the IFRIC to publish the reasons underlying its decision. These so called "Non-Interpretations" have a significant impact on the application of IFRSs in practice. When they are published in the IFRIC Update, "Non-Interpretations" are preceded by the statement: "The following explanations are provided for information only, and do not represent or change existing IFRS requirements". However, the wording of the rejection is often very similar to a (de facto) Interpretation whereas their authority remains unclear. Therefore, there is a danger that these IFRIC Agenda Rejections de facto carry some degree of authority, without having undergone the necessary due process.

For issues that cannot be answered by the IFRIC itself, a requirement should be established to refer such issues to the IASB without undue delay.

Provided that the IFRIC Agenda Rejections will not encompass technical statements, we agree with the proposed consultative process regarding issues not added to the IFRIC agenda.

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.*

We agree with the proposals concerning the IFRIC's relationship with national standard-setters (NSSs) and interpretative groups (NIGs) as described in paragraphs 54 and 55, but we consider the reference to the IFRIC Agenda Committee in paragraph 55 to be unnecessary, since we are of the opinion that the IASCF should follow our suggestion to dispense with the Agenda Committee in the due process.

We accept, albeit somewhat reluctantly, that the IFRIC will not give assurance on whether a local interpretation is either consistent or inconsistent with IFRSs.

Other remarks

Paragraph 31 provides that if an issue has been considered at three meetings and there is still no consensus in prospect for either a draft or final Interpretation, the IFRIC considers whether it should be removed from the agenda. It may then extend consideration of the issue for an additional period. If the IFRIC has concluded that it will not be able to reach a consensus, it will discontinue work on the issue and inform the IASB and publish this fact. The IFRIC may also recommend that the matter be taken up by the IASB. We appreciate the IASCF providing for a process ensuring that the issues can be appropriately addressed. However, we believe that the process leaves too much to the discretion of the IFRIC, as to whether, and when it will pass an issue over to the IASB. Moreover, we urge the IASCF to consider whether the aim

of IFRIC might be achieved better if alternative treatments were permitted in some cases rather than requiring the IFRIC to reach a uniform consensus.

In respect of stage 4 (Development of a Draft Interpretation) of the proposed due process, we would like to recommend establishing a requirement to ensure adequate consideration of the interpretations of national standard-setters. This applies especially to interpretations pertaining to converged standards (US-GAAP/IFRS). We do not consider the requirement in paragraph 37(e), i.e. listing the relevant pronouncements and identifying inconsistencies between the alternative treatments and the standards, is sufficient to reach this objective.

Differing from the IFRIC Preface (paragraph 31 uses the term “includes”), the requirements concerning the content and structure of the Issues Summary are not mandatory in the IFRIC Draft Due Process Handbook (paragraph 37 instead uses the term “may include”). We are not convinced of the advantages of this change and would appreciate the IASCF adhering to the stricter wording used in the IFRIC Preface.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Klaus-Peter Naumann
Chief Executive Officer

Norbert Breker
Technical Director
Accounting and Auditing