

22.7/8/1

29 July 2005

Mr Tom Sedenstein
Director of Operations
IASC Foundation
60 Cannon Street
GB-London EC4M 6XH

Dear Mr Sedenstein,

RE: IFRIC REVIEW OF OPERATIONS

UNICE welcomes the opportunity to comment on IFRIC's review of operations. The analysis in the review raises very deep concerns as it concludes that no drastic change in the way IFRIC's operations are carried out is needed. UNICE is of a very different opinion as is expressed in our letter below.

1- The issue for IFRIC is not (only) an issue of capacity, it is an issue of efficiency

IFRIC's review of its operations is mainly based on absolute and past numbers. Such a basis is flawed. It is our understanding that many issues do not reach IFRIC, because IFRIC is not regarded as being able to solve most issues at stake, either because of lack of timeliness, or because of inadequate filtering criteria.

IFRIC does not address its own efficiency, nor does it report any actual data showing the average time consumed, from the time an issue has reached IFRIC until either an interpretation is issued or the issue is tabled for rejection. Some UNICE constituents have sent out issues to IFRIC in late 2004 and those issues have not yet appeared (over nine months later) on any public agenda. Our understanding of IFRIC's procedures is that an issue appears in IFRIC's public agenda only after IFRIC's agenda committee releases the issue for IFRIC's analysis. UNICE therefore believes that IFRIC's most severe lack of efficiency stems from the existence and operating procedures of its Agenda Committee. UNICE therefore questions the need for an agenda committee when the existence of an agenda committee consumes rather than saves extremely long lead times.

2- Whether an agenda committee is retained, selection, nomination and working procedures of the agenda committee need an urgent and in-depth reform

The lack of transparency in which the agenda committee operates is such that we have remained for over three years in complete ignorance of its existence, working procedures and composition! We have become aware of its role when we have inquired why issues sent to IFRIC for interpretation would never show on the IFRIC agenda, either as in need for an interpretation, or as rejection.

After searching the IASB website, we became aware of the public working procedures of the IFRIC agenda committee which include the following features: 3 members nominated for 2-year mandates, no public meeting because working procedures involve exchanges of e-mails. We then further identified that none of these features was in phase with the reality of the agenda committee.

In our view the present situation is unacceptable, and if an agenda committee is deemed necessary, the following decisions will have to be made:

- make meetings of the Agenda Committee public and release an update of its analyses,
- open the nomination process to IFRIC members who do not belong to the audit profession, and insist on having an appropriate balance of backgrounds in the composition of the agenda committee,
- give appropriate publicity to calls for nomination and decisions of new (or renewed) mandates.

These issues are partly addressed in the IFRIC's review of operations. However there is no proposal whatsoever to move to an acceptable set of solutions. The present situation leads to decisions being taken behind closed doors which affect all constituents who are, however, excluded from that decision process. We therefore urge the Trustees of the IASCF to ask for the necessary improvements.

3 – The selection criteria applied are too restrictive

We understand and support that IFRS must remain a principle-based set of standards. We in particular would not support any rule be set in every situation where judgement is needed. However changes to the selection criteria still need to be made:

- The existence of an active project on the Board's agenda should be removed from the list of criteria: most active projects are not due to issue final standards before 2008 or later. In the meantime, financial statements need to be prepared on the basis of the existing IFRS literature, and consistency in application and representational faithfulness need to be ensured without delay,
- Whether the issue is of widespread significance is in theory a sound criterion; however in practice there is no room in the interpretation process to allow for adequate analyses and observations. Therefore application of this criterion today relies on mere assertions and is not very helpful.

4- Constraints put on IFRIC need to be reviewed.

We believe that, as of today, constraints put on IFRIC need to be reviewed in order to ensure that IFRIC's pronouncements provide adequate accounting treatments. Today IFRIC's pronouncements reveal that the only objective for IFRIC is to produce an interpretation in full conformity with existing standards, without proper consideration of the quality of the accounting treatment to which it leads. IFRIC 3 is an example of this, and we fear that interpretations on Concessions might lead to the same deficient outcome.

Very early in the process and before any exposure of proposed interpretations, having relevance and representational faithfulness as objectives, IFRIC should turn to the IASB issues requiring amendments of existing standards and IASB should deal with these issues as priorities.

5 – We agree with the other proposals in the review

- a) Changing IFRIC's quorum in case of vacancies seems to be an adequate measure to avoid stopping the decision process. We therefore support it.
- b) Due process proposed for rejection of issues is a welcome improvement and we support it. However it will prove to be really efficient only if agenda committee meetings become public and issues at stake are well understood by all constituents.

- c) Due process for interpretations should be maintained and we therefore support not going for an urgent issue taskforce which would work without prior exposure drafts and public discussion. However we believe that total lead time of the IFRIC's process could be divided by two or three if an in-depth reform of the agenda committee is undertaken and if IFRIC acknowledges that time is an issue. We believe that frequency of IFRIC's meetings should be multiplied by two in order to speed up the process.

Should you wish to comment on the above further, please do not hesitate to contact us.

Yours sincerely,



Jérôme P. Chauvin
Director, Legal Affairs Department