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8 May 2006

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International Accounting Standards Board  
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THE SECRETARY GENERAL

Dear Sir,

RE: IFRIC DUE PROCESS AND OPERATIONS

In the summer of last year UNICE had welcomed the opportunity to comment on the review of operations of the IASB's interpretative body, the International Financial Reporting Interpretations Committee (IFRIC). We hoped that this review would lead to urgently needed improvements in the work procedure of IFRIC. Other constituents and national standard setters raised similar comments. Without efficient interpretation the usefulness and future success of IFRS as truly global accounting standards could be seriously hampered.

However, we regret that the reform of IFRIC has not at all matched expectations. Therefore on behalf of the European business community I address myself to you, to put forward three major points where improvements in the IFRIC work procedures are indispensable:

1. Selection, nomination and working procedures of the IFRIC agenda committee need an urgent and in-depth reform. The business community is particularly worried that all members of the agenda committee originate from the auditing profession.
2. When deciding not to take an item on the agenda, IFRIC must limit its wordings for rejections to enunciating the issue considered, and to identifying the criteria applied for rejection. There is more to lose than to gain in letting wordings for rejection expand.
3. For no apparent reason, transparency of IFRIC's operations lies far behind IASB's. We strongly recommend IFRIC's communication standards to be aligned with IASB's – in particular by webcasting their meetings -, and the website to be updated regularly.

Details on each of these points can be found at annex to this letter. I thank you in advance for the consideration you and your colleagues will give to UNICE's views.

Yours sincerely,

*(original signed by)*  
Philippe de Buck

8 May 2006

Annex:

**UNICE comments on IFRIC's due process and operations**

1- *Selection, nomination and working procedures of the IFRIC agenda committee need an urgent and in-depth reform*

Although comments expressed by constituents were adamant, IFRIC would not suggest to Trustees any change to their agenda committee working procedures. The agenda committee working procedures are raising major and growing concerns:

- Agenda committee members are originating from the auditing profession only. Although their mandate is claimed to be of two years, no change seems to have been made since IFRIC was established five years ago; there has been no public call for nomination among IFRIC members, no appointment or renewal decision made public. When discussing the issue with IASB representatives, we are informed that agenda committee meetings include IOSCO, EU, IASB and IFRIC members as observers. Nonetheless recommendations to take an item to the IFRIC agenda or to propose a wording for rejection remain at the sole discretion of the audit profession, since observers in meetings do not join in making decisions;
- Agenda committee members are selected by the IFRIC Chairman acting solely; we believe this is not appropriate. IFRIC agenda committee members should be selected by the Trustees; to make this recommendation workable, the length of the mandate might need to be aligned with IFRIC membership mandates;
- Agenda committee meetings do not take place in public. Making them public would in itself considerably alleviate the above concerns. Although IFRIC members have shown very split views on this issue, and in spite of constituents' strong requests, the handbook proposal put to the Trustees does not reflect any proposal or consideration for change; it is all the more surprising that the reason given by IFRIC members to reject the proposal was that they would feel compelled to participate in agenda committee meetings if these meetings went public. We believe that due process, efficiency and public interest motives should prevail. The conviction that all IFRIC members should participate in a public agenda meeting reinforces the claim that those meetings should be held in public.
- Requests made to IFRIC remain in the hidden domain: any stakeholder raising a request to IFRIC remains unaware if, how and when, its request might be dealt with. We are aware of issues which are over 18 month-old. No information is available to identify whether staff is dealing with the issue, or sitting on it, or whether the agenda committee is studying it meeting after meeting. For example, IFRIC D9

seems to have been “dropped” for no obvious reason and without any indication on the website or elsewhere.

- All stakeholders except the large international auditing networks are kept ignorant of the proceedings. We note, with increasing concern, that decisions made in agenda committee meetings are selectively being released – on a regular and timely basis - throughout the international audit networks to which agenda committee members belong; this creates an unacceptable information gap between companies and their auditors when discussing IFRS reporting issues;
- Items submitted to the IFRIC agenda seem to follow the pattern of audit firm wishes; for example, the reason remains unknown, why puts on minority interests have appeared on the IFRIC agenda and were withdrawn, although the issue is of wide relevance and significance with divergent practices flourishing; if the agenda committee’s role is, as it is claimed to be, limited to formulate agenda recommendations to the IFRIC, we wonder why deliberations by IFRIC have not yet started, while other issues of less significance, such as real estate revenue, have found their way to the IFRIC agenda;
- From studying the IFRIC agenda papers (and realising that some paragraphs may have been removed)we are concerned whether IFRIC members are provided with all relevant material and information necessary to form an independent view on the recommendations put forward by the agenda committee; this raises the question of whether:
  - i. The agenda committee has no more information, which would indicate that in fact staff alone makes decisions,
  - ii. The agenda committee has more information, which raise concerns as to why IFRIC members would not have access to the same material, when asked to make an agenda decision.Whichever the answer is, we believe that this situation is not satisfactory, and procedures should be put in place to ensure independent decision making.

We therefore reiterate the strong recommendations made last July:

- make meetings of the Agenda Committee public and publish timely updates of its analyses,
- open the nomination process to IFRIC members who do not belong to the auditing 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,
- have these decisions made by the IASCF nomination committee.

The present situation leads to having the auditing profession play the role of an unofficial interpretation committee. This is clearly unacceptable practice for an independent organisation, committed to public interest.

Another possibility would be to put in place a formal due process for the wording for rejections and the rejections themselves, including deliberations by

IFRIC as a whole and a full reasoning for the rejection. Of course, we see the problems of capacity constraints arising from such a process.

One example for the unsatisfying way non-interpretations are issued is the interpretation on the issue Scope of IFRS 2: Share Plans with Cash Alternatives at the Discretion of the Entity” which is currently under discussion. Technically the rejection is correct; however the reasoning is difficult to follow as most of the arguments are placed in the observer notes.

## 2- *Wordings for rejection raise heavy concerns*

In our initial response, we have welcomed IFRIC’s decision to issue wordings for rejection when deciding not to take an item to its agenda.

However in practice wordings for rejection motivated by an assessment of standards being clear raise a lot of concerns:

- In such cases, wordings for rejection almost inevitably include some technical assessment and eliminate, without proper due process, implicit options contained in IFRS;
- Some wordings for rejection are not even faithful to the IFRS original text; some paraphrase is included which in itself is already an interpretation;
- Issues encountered in practice are not given proper attention; indeed, often IFRIC members are not provided with the careful analysis that would be needed to understand stakeholders’ concerns. We believe that all IFRIC members should take the effort of fully understanding stakeholders’ concerns.
- Wordings for rejection are being used by auditors as if they were an integral part of IFRS, although they are published under an appropriate disclaimer on the IASB website;
- Auditors tend to rely on wordings for rejection to avoid the burden of making their own judgement, or the accompanying responsibility;
- Auditors now claim that the issuance of wordings for rejection can motivate the need for corrections of errors.

We therefore strongly request that wordings for rejection be limited to enunciate the issue considered, and identify the criterion (or criteria) applied for rejection. In particular, stating that the standards are clear should not be elaborated further. Experience shows that there is more to lose than to gain in letting wordings for rejection expand.

## 3- *IFRIC meetings need to be webcast and the IFRIC update needs to be released as quickly as the IASB update*

Although the IFRIC meets in the very same room as the IASB, with webcast facilities available, we wonder why IFRIC meetings are not webcast.

The reasons why IFRIC meetings should be webcast are indeed compelling:

- Stakeholders are more likely to be interested in a selection of issues dealt with by the IFRIC, than by the whole session,

- IFRIC process is much shorter, and IFRIC decisions are more likely than IASB active projects to have an impact in the short term on how entities should apply IFRS,
- As for the IASB, travelling to London may not be in the reach of interested parties.

Also, for some unknown reason, the IFRIC update is released much later than the IASB update, in average two weeks after the IFRIC meeting. In comparison, the IASB update is generally released only 2 to 3 days after the meeting (a bit longer when FASB's input is requested).

Furthermore, the list of items not taken on the agenda published on the website is dated December 2004. The use of such a list is difficult to see if it is not updated on a regular basis.

We strongly recommend IFRIC's communication standards to be aligned with IASB's and the website being updated regularly.