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Mr Tom Seidenstein
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Berlin, 29 July 2005

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Dear Mr Seidenstein

Comment Letter on the Consultative Document *IFRIC – Review of Operations*

The AIC appreciates the opportunity to comment on the Consultative Document *IFRIC – Review of Operations* and fully endorses IFRIC's decision to review its processes and operations. While we support many of the IFRIC views we are concerned about several issues in the Consultative Document that refer to the status (authoritative or not binding guidance) of the published rejections of issues and the IFRIC's reservations against negative clearance of domestic interpretations.

A. Capacity to produce

We agree with the IFRIC views expressed in this section. The AIC is of the opinion that it is necessary that IFRIC produces useful Interpretations on carefully chosen topics on a timely basis and notes IFRIC's analysis of the reasons for the rather slow production in the past. In paragraphs 15-21 three valid criticisms are explored that are crucial for speeding up the production of Interpretations. Especially, an appropriate staff allocation to IFRIC and an understanding of the Board that IFRIC matters deserve the same priority as IASB issues are vital for the realisation of a speedier IFRIC process. In this respect, we strongly support the IFRIC's intention to seek assistance by National Standard Setters (NSS) in the development of Interpretations.

B. Rejection of issues

While we agree with the IFRIC's policy to adopt a more formal approach to the rejection of issues and welcome the greater transparency of the decision processes in the Agenda Committee and the IFRIC we are concerned about the lack of clarity in



this section with regard to the authority of these “Non-Interpretations”¹. Constituents like preparers, auditors and enforcement bodies will be most interested in the answer to the question if the published “Non-Interpretations” have an authoritative status or if they only represent a non binding guidance. Unfortunately, the Consultative Paper is silent on this issue.

In the June issue of IFRIC Update the status of the “Non-Interpretations” is described as follows: “The following explanations are provided for information only, and do not represent or change existing IFRS requirements.” We are convinced, however, that in practice – despite of this formulation and the limited due process – the publishing of the reasons for rejecting issues will have a significant impact on the application of IFRSs. Consider, for example, the explanation for the issue “IAS 17 Finance subleases of finance leases”. In the last sentence of the explanation, it is explicitly stated that IFRIC did not agree with the treatment that had been suggested. Even if this explanation is labelled as “information”, in our opinion, this must imply that the treatment that had been suggested is not in accordance with IFRSs and therefore cannot be accepted.

Another issue where we have some doubts about the appropriate reasoning with regard to a rejected issue is "IAS 39 Impairment of an equity security" (refer to IFRIC Update April 2005 and June 2005). Besides that we are not convinced of the supporting documentation and reasoning given by IFRIC it should be noted that the conclusion agreed upon by IFRIC will result in a major difference to US GAAP with regard to the cost basis and period to be used. We do not believe that the IASB intended to create such a difference when incorporating "a significant or prolonged decline" in IAS 39.62 as objective evidence. This example highlights the importance to clarify the status of these "Non-Interpretations" and to ensure that great care is applied by IFRIC on the rejected issues, too.

The AIC understands that the importance of the “Non-Interpretations” is supposed to go beyond “setting an appropriate tone for constituents as to the types and level of issues which they can expect IFRIC to address” and giving “greater evidence of the volume of work that the IFRIC deals with” (see paragraph 26). In this case, we suggest publishing the “Non-Interpretations” not only on the IASB website but also in the Bound Volume. As a minimum, references to the “Non-Interpretations” should be added to the affected Standards or Interpretations. In addition, an approval by the IASB should be considered which potentially would have revealed the greater relevance of the above IAS 39 rejected issue.

Finally, we would like to emphasise the importance of a careful formulation of the “Non-Interpretations”. Taking “IAS 17 Finance subleases of finance leases” in the June issue of IFRIC Update as an example, the published information can only be considered useful if “the treatment that had been suggested” is clearly described in the “Non-Interpretation”. This, however, has not been done so that it remains unclear

¹ The term „Non-Interpretations“ is used in this comment letter as a synonym for “published reasons for rejecting issues”.



with what accounting treatment the IFRIC has actually disagreed with. Referring to the issue “IAS 12 Carryforward of unused tax losses and tax credits” we miss clarity on the point what is exactly meant by the formulation “portions of the total amount”.

This lack of clarity might be avoided if the form and substance of the “Non-Interpretations” would be generally addressed in the Consultative Paper in an explicit way.

C. Additional mechanisms for urgent issues?

The AIC does not support the employment of an urgent issues mechanism because this would contradict two fundamental principles of the IASB: (1) No development / issuance of a Standard or an Interpretation without due process and (2) IFRSs should be characterised by the principle-based approach.

As practice with urgent issues task forces shows, a fast development of applicable urgent issues interpretations can only be realised by omitting the due process. Agreeing with the IFRIC, this does not seem acceptable to us. As a compromise, one might consider shortening the due process, but – as can be seen in the case of the “Non-Interpretations” and the proposed mechanism for Technical Corrections – even a “fast track” process with a shortened due process would take up to 6 months. This is only slightly shorter than the time it should take IFRIC as a minimum to issue a final Interpretation applying the normal IFRIC procedures. (According to paragraph 23 of the Consultative Document 7 months can be considered the minimum). Consequently, instead of creating a new kind of interpretation the IFRIC should carefully analyse what issues need to be resolved quickly and put the priority on the chosen issues.

In addition, in light of the multitude of specific problems in accounting practice one could expect that a large number of urgent issues interpretations would have to be developed (refer to the hundreds of issues published by the EITF). The employment of an urgent issues mechanism would therefore bear the risk that the principle-based approach of IFRSs would be diluted and the IFRSs would thus come closer to a rule-based approach that because of its thoroughly discussed disadvantages should be avoided.

While agreeing with the IFRIC in not implementing an urgent issues mechanism, the AIC would like to point out that this issue might be picked up by other accounting bodies or institutions that will not necessarily coordinate their activities with the IFRIC. The IASB and IFRIC should observe these potential tendencies closely and try to implement cooperative mechanisms. An essential condition for such mechanisms to be successful is an efficient and effective IFRIC process that ensures a timely issuance of Interpretations.



D. Involvement of NSS

As already stated in our comments to sections A and B of the Consultative Document we strongly support a close cooperation between IFRIC and NSS in the development of Interpretations and reasons for rejecting issues. We also agree with the IFRIC's view that there should be no proliferation of sources of interpretation. To achieve this goal, it is the AIC's belief that a formal negative clearance mechanism as proposed in paragraph 50 of the Consultative Paper needs to be established. The process currently favoured by IFRIC ("IFRIC supports having staff liaise with the NSS" and "consider whether the domestic issue is solely that and try to identify any IFRS incompatibility") is very ambiguous and leaves it mostly to chance if an interpretation or guidance developed by a NSS is reviewed for consistency with IFRSs or not. The reservations against negative clearance set out in paragraph 45 that this process would involve the IFRIC in forming a view without due process could be mitigated by noticing that the domestic interpretations would be subject to the due process of the NSS.

If you would like further clarification of the issues set out in this comment letter, please do not hesitate to contact me.

With best regards

Dr. Stefan Schreiber
AIC, Chairman