



AIC • c/o DRSC e.V. • Zimmerstr. 30 • 10969 Berlin

Telefon +49 (0)30 206412-12

Telefax +49 (0)30 206412-15

E-Mail info@drsc.de

Mr Tommaso Padoa-Schioppa
Chairman of the Trustees of the
International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

Berlin, 30 November 2010

Dear Mr Padoa-Schioppa

The annual improvements process: Proposals to amend the Due Process Handbook for the IASB

On behalf of the Accounting Interpretations Committee (AIC) of Germany I am writing to comment on the IFRS Foundation's Proposals to amend the Due Process Handbook for the International Accounting Standards Board (IASB) with respect to the Annual Improvements Process (AIP). We welcome the opportunity to comment on the proposals.

The AIC appreciates the efforts of the IFRS Foundation to develop criteria for annual improvements to IFRSs for inclusion in the Due Process Handbook for the IASB. We think that the proposed criteria generally provide a sufficient and appropriate basis for assessing whether a matter relating to the clarification or correction of IFRSs should be addressed using the AIP.

When considering whether to add an item to its active agenda, the IASB may determine in accordance with the proposed para. 27A that it meets the criteria to be included in the AIP. In planning whether an issue should be addressed by amending IFRSs within the AIP, the IASB assesses the issue against four proposed criteria. According to the first criterion (para. 65A (a)) the proposed amendment must have the characteristic of (i) 'clarifying' or (ii) 'correcting', or both. The last sentence of this second sub-criterion referring to 'correcting' is as follows (emphasis added):



‘A correcting amendment does not propose a new principle or a change to an existing principle, but may create an exception from an existing principle.’

We do not agree that a correcting amendment within the AIP may create an exception from an existing principle since it could go beyond what we consider to be appropriate and acceptable for AIP, so that a correcting amendment may result in too far-reaching changes of IFRSs. In general, we do not agree that based on the AIP a new principle be proposed, an existing principle be changed or an exception from an existing principle be created. This main reason for our disagreement with the proposal can be further detailed as follows:

- The creation of an exception from an existing principle may in fact result in a change to an existing principle or introduce a new principle. Hence, we take the view that the prohibition to propose new principles as part of AIP virtually results in the prohibition to create exceptions from an existing principle.
- If a correcting amendment represented an exception from an existing principle, the exception would automatically raise the question of the appropriateness and acceptability of the underlying principle. Although such a potentially far-reaching discussion about an existing principle might be appropriate, in our view this should not form part of the AIP.

If it is the IASB’s intention to create an exception from an existing principle, we consider it necessary that the Board follows the standard-setting process as outlined in its Due Process Handbook para. 18 to 53, since this is the appropriate fundamental due process in the course of which new principles may be proposed, existing principles may be changed or exceptions from an existing principle may be created.

With regard to the second criterion ‘correcting’ we have some concerns that according to the proposed amendment IFRSs shall be improved by:

‘resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or [...]’.

Such an improvement, without further describing what is meant by ‘requirements of IFRSs’, may also go beyond what we consider to be appropriate and acceptable for the AIP, so that such a correcting amendment may result in too far-reaching changes of IFRSs unless the proposed amendment represents the correction of a clear error. Therefore, we ask the IFRS Foundation to provide a clear description of what the term ‘requirements of IFRSs’ relates to and how it is different from the principles of a standard. We expect such a description to help clarifying that the principles of a standard are not affected by an improvement as described above. In order to



address our concerns that a correcting amendment may result in too far-reaching changes of IFRSs, we further propose that the IFRS Foundation puts more weight on the second of the four criteria, which is defined as follows:

‘(b)The proposed amendment has a narrow and well-defined purpose, ie the consequences of the proposed change have been considered sufficiently and identified.’

We believe that more weight can be given to this second criterion (b) by simply changing the wording so that its importance increases in relation to the other three criteria.

Other comments

We are aware and support that the criteria for annual improvements to IFRSs, as discussed above, are to be incorporated into the IASB Due Process Handbook. However, we also consider it necessary to incorporate relating guidance into the Due Process Handbook for the IFRIC (now called the IFRS Interpretations Committee). Because the Committee only assists the IASB in its AIP by reviewing proposed improvements to IFRSs and making recommendations to the Board, we consider it sufficient if some guidance is added to the IFRIC Due Process Handbook with regard to such assistance, including a reference to the criteria for annual improvements to IFRSs as included (soon) in the IASB Due Process Handbook. The latter seems to be necessary for situations, when during the Committee’s work on an AIP item it becomes apparent that the issue is broader and more complex than expected and would therefore no longer accomplish the AIP criteria, i.e. in our view the Committee should inform the IASB immediately and ask for corresponding advice.

In the past we observed that the Committee, instead of adding an issue to its agenda, frequently referred matters to the Board including recommendations how to deal with these matters, e.g. to address the matter as part of a Board’s active project or as a potential item for its future agenda, to reconsider the matter as part of its post-implementation review of the respective IFRS or to address the matter in a separate project rather than as part of annual improvements (so called narrow-scope improvements). Based on these observations we consider it appropriate to include some guidance in the Committee’s Due Process Handbook referring to the respective parts of the above mentioned types of forwarding matters to the IASB in the Board’s Due Process Handbook.

Finally, we noted that there are procedural conflicts as to whether the Committee issues an interpretation or proposes that the Board should add an issue to annual improvements. These conflicts arise when the Committee is being asked to resolve a conflict between existing requirements of IFRSs. On the one hand, such an issue is



supposed to be addressed by the AIP (please refer to the proposed para. 65A (ii) - first bullet point of the proposals to amend the Due Process Handbook for the IASB), while on the other in the past there have been incidents for such issues being addressed in the form of an interpretation. As an example please refer to BC5 of IFRIC 10 *Interim Financial Reporting and Impairment*, which reads as follows:

‘BC5 The IFRIC noted that many of the respondents believed that in attempting to address contradictions between standards, D18 was beyond the scope of the IFRIC. Some believed that the issue addressed could be better resolved by amending IAS 34. Before finalising its views, the IFRIC asked the International Accounting Standards Board to consider this point. The Board, however, did not wish to amend IAS 34 and asked the IFRIC to continue with its Interpretation.’

Above we have detailed our concerns with respect to ‘resolving a conflict between existing requirements of IFRSs’ within the AIP (please also refer to the proposed para. 65A (a) (ii) - first bullet point). We hold the opinion, that ‘addressing contradictions between standards’ or ‘resolving a conflict between existing requirements of IFRS’s’ only should be allowed if the narrow circumstances are met as outlined by us above. On the other hand, an interpretation should in no instances attempt to address contradictions between standards or resolve conflicts between existing requirements of IFRS. This is because the due process requirements for interpretations are less strict as compared with those for AIP (e.g. the standard comment period for draft interpretations is 60 days, whereas the IASB normally allows a period of 120 days for comments on an exposure draft). Furthermore, exposure drafts of the IASB are much more in the focus of constituents than draft interpretations issued by the Committee. Thus, we propose that the IFRS Foundation addresses this important issue by clarifying it in both, the IASB’s and the Committee’s Due Process Handbooks.

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

With best regards

Guido Fladt
AIC, Chairman