



Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaçào Internacional das Comissões de Valore

4 August 2005  
Mr. Thomas Seidenstein  
Director of Operations  
IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Tom:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (the Committee or SC1) appreciates the opportunity to provide our comments with regard to the International Accounting Standards Committee Foundation's paper - *IFRIC – Review of Operations: Consultative Document - April 2005 (the Document)*.

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement.<sup>1</sup> Members of SC1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of SC1 and are not intended to include all the comments that might be provided by individual members on behalf of their respective jurisdictions.

The SC1 views the role of the International Financial Reporting Interpretations Committee (IFRIC), and its due process, as critical elements in the development of a high quality global financial reporting standards, as well as ensuring the consistent interpretation and rigorous application of those standards. To this end, we welcome the issuance of this Document because the Trustees address several of the constituents' concerns regarding IFRIC's due process and capacity to cope with the demand for timely interpretations of International Financial Reporting Standards (IFRS). Therefore, we commend the Trustees for taking steps, i.e., constitutional changes to the IFRIC's quorum requirement and changes to IFRIC's operations, to address these concerns and resolve the related issues.

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<sup>1</sup> See IOSCO website, [www.iosco.org](http://www.iosco.org)

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## **Proposed Constitutional Change**

We support the proposed change to section 35 of the IASCF's Constitution, which states, "The quorum is reduced to eight members for a maximum of three consecutive meetings if there is a vacancy on the Committee. This is not changed for any further vacancies that may overlap the first." We believe that this change will enable the IFRIC to discharge its mandate and meet its objectives in delivering timely interpretations.

## **Overview of IFRIC Operations**

The Document provides the IFRIC's analysis and views on the following four areas of its operations: 1) capacity to produce interpretations; 2) machinery for rejecting issues proposed to its agenda; 3) possible mechanisms to address urgent issues; and 4) the involvement of accounting standard-setters and other interpretative bodies.

### **1) Capacity to Produce Interpretations**

SC1 welcomes the increased resources that result from the recent hiring of the IFRIC coordinator (a new IFRIC position) and the appointment of a Board member as the chair. We believe that these "focused" resources, along with the additional resources provided by the national standard setters, should improve the capacity of the IFRIC, enabling the Committee to deliver more timely interpretations.

#### ***Time Parameter for Agenda Items***

As securities regulators, a primary objective is to ensure that relevant and reliable information about issuers is provided to investors. If there are diverse practices in accounting for similar business transactions and activities, the quality of information is diminished and thus, less relevant and reliable than it should be. Therefore, the timely issuance of final interpretations is necessary to ensure the highest quality of financial reporting to investors and other users of this information. Paragraph 37 of the Preface to International Financial Reporting Interpretations Committee (the Preface) addresses the procedures and time parameters for reviewing issues in a timely manner as follows:

*To ensure that the IFRIC considers only issues on which timely guidance can be provided, the IFRIC reviews issues at the time agenda decisions are made and subsequently keeps them under review, to assess whether they can be appropriately addressed within the mandate. If an issue has been considered at three meetings and there is still no consensus, the IFRIC reassesses the issue to determine whether it should be deleted from the agenda. The IFRIC may extend consideration of the issue for an additional period, normally not more than one or two meetings. If the IFRIC has concluded that it will not be able to reach a consensus, it will discontinue work on this issue, inform the IASB and publish the fact that work has been discontinued. The IFRIC may recommend that the matter be taken up by the IASB.*

We believe that the above process provides sufficient time, i.e., five IFRIC meetings, to review and reach a consensus on an issue. However, the duration of current, and prior projects, would indicate that IFRIC has not been operating within the normal procedures and time parameters in paragraph 37. Several issues (in addition to the recent work on service concession arrangements) have been

deliberated beyond the five-meeting time parameter. Therefore, the SC1 recommends that the IFRIC consider the application of such guidelines more closely in determining when, or if, it should continue to deliberate an issue and/or recommend that the IASB take the issue onto its agenda.

### ***Prioritization of Issues***

Prioritization of issues is another area that we believe should be addressed within the IFRIC's process. Certain issues will need more immediate resolution than others and there may need to be an adjustment made to the priority of current issues as new ones are added to the IFRIC's agenda. As such, the SC1 believes that the prioritization of issues should focus primarily on the needs of the financial markets by giving a higher priority to those issues affecting the public capital markets. We believe that the prioritization, or re-prioritization, of issues should be transparent and clearly explained to constituents.

In addition to whether the IFRIC has the capacity to handle additional issues, we believe it should consider the impact on market participants' capacity to review draft interpretations and provide thoughtful comments within the time provided. This review should also consider the nature and complexity of the issues.

## **2) Rejection of Issues**

SC1 concurs with the IFRIC's proposal to adopt a more formal approach for accepting or rejecting issues onto its active agenda. We believe that the following criteria listed in paragraph 27 of the Preface should be used as the primary basis for accepting issues:

*In determining whether to recommend that an issue be included on the IFRIC agenda, the Agenda Committee considers the following criteria, although each issue does not have to satisfy all criteria. To be added to the agenda, an issue should:*

- (a) have practical and widespread relevance.*
- (b) involve significantly divergent interpretations (either emerging or already existing in practice).*
- (c) be likely to result in a consensus view of the IFRIC on a timely basis.*
- (d) be unrelated to a Board project that is expected to be completed in the near future (i.e., if a Board project exists that is expected to resolve the issue in a short period, the IFRIC is unlikely to add the issue to its agenda).*

The criteria used in the assessment of an issue (as to whether it should be accepted onto its active agenda) may need to be weighted. For example, an issue may have practical and widespread relevance as well as significant divergence in current application of the IFRS, but there may be uncertainty as to if the Board will be able to complete a current project in the near future, in which the issue is being addressed. It is not clear to us how IFRIC considers criterion (d) in determining whether to accept or reject an issue. In other words, how is "near future" considered, or weighed, in determining why certain issues were rejected? We would view "near future" to mean that the Board would be able to deliberate and resolve the issue faster than the IFRIC would be able to. As such, the mere fact that the Board has a project underway should not preclude the IFRIC from accepting the issue, especially if the completion of the project appears several years away.

***Current Literature Is Clear and Only One Answer Is Possible***

We believe that the IFRIC should either consider adding another criterion or modification to an existing criterion, e.g., criterion (b) for accepting issues, which indicates that the literature is unclear. Often, IFRIC's communication, indicating that it has rejected an issue because the current accounting literature is clear and only one answer is available, does not sufficiently explain the connection between the issue and the answer given. We believe that the IFRIC should provide enough information so that constituents, who have the same or similar issue, will know where to refer to in the accounting literature. Such communication will promote consistent interpretation and application of IFRS.

***Table Agenda Committee Recommendations***

SC1 agrees with the IFRIC's view regarding the approach to table Agenda Committee recommendations to reject an issue for one meeting so that the IFRIC can make a decision at the next meeting. We believe that this process works effectively if the next IFRIC meeting is within a month or less following the Agenda Committee.

***Mechanism for Tracking IFRIC Issues***

SC1 supports the IFRIC's view to make its decisions for rejecting issues more transparent and open to its constituents. The establishment of this public record of IFRIC decisions is an important part of its due process. However, we believe that this record of decisions should be broadened to indicate *all* the issues submitted to IFRIC for consideration and their current status, such as: issues addressed by the Agenda Committee - rejected and accepted including the basis for the IFRIC's decision; issues under deliberation by the IFRIC and their current status, including the expected timetable for draft interpretation and final issuance of the interpretation.

**3) Additional Mechanisms for Urgent Issues**

SC1 concurs with the IFRIC view that it should retain its due process for the development of IFRS interpretations and therefore, does not support IFRIC becoming an urgent issues group. Although regulators and other constituents may have an urgent need to resolve certain issues, we recognize that due process provides a mechanism for which constituents can express their concerns and views in developing an interpretation. We believe that this interaction between the IFRIC and its constituents is necessary for developing thoughtful and technically sound interpretations.

**4) Involvement of National Standard Setters (NSS)**

SC1 supports NSS and other interpretative bodies bringing issues to the IFRIC for consideration. The NSS is often more knowledgeable and has a better understanding of an issue that occurs frequently in their domain. Therefore, we believe that this channel for information flow, including the identification of issues, is necessary to address practice diversity and promote consistent interpretation and application of IFRS.

However, we are not sure how the proposed working relationship between the NSS and IFRIC, noted on pages 11-12 of the Document, would operate with regard to setting priorities and delegation of

work to the NSS. We believe that most accounting issues are of a global nature rather than solely a local issue. As such, it is not clear to us, under this proposal, how the NSS and IFRIC will decide which issues are local in nature and best addressed by the NSS (i.e., the criteria to be used to determine a local vs. global issue).

Like the IFRIC, we do not support proliferation of interpretation sources and therefore, are concerned that NSS or domestic interpretations may be incompatible with the Board's approach to IFRSs. As such, we are greatly concerned with how IFRIC's "negative clearance" of NSS draft interpretation will work under this proposed model. This model indicates that a negative clearance means that the IFRIC can see nothing in the local interpretation that is inconsistent with IFRSs. However, there is no mention of how the IFRIC will review the NSS draft interpretation and then communicate its decision to give, or not give, a negative clearance. In other words, will the IFRIC's review and discussion of these draft interpretations be within the public domain and will the negative clearance for such interpretations be documented and publicly available on the IFRIC's web site. Overall, we do not believe such a model, as proposed, could be operational with regard to promoting consistent interpretation and application of IFRS.

## 5) Selection Procedures for Admission of Issues

### *IFRIC Agenda Committee Meetings*

The SC1 believes that the private meetings of the Agenda Committee provide a forum in which constituents can freely provide facts and data surrounding their particular issues for which a public forum may not. Our view is predicated on the fact that the decisions made by the Agenda Committee will be transparent, clearly stated to constituents as well as connected to the criteria outline in paragraph 27 of the Preface to IASB's constituents.

### *Role and structure of the Agenda Committee*

Constituents of the IASB have expressed concerns about the dominance and role of the largest accounting firms in determining the agenda for the IFRIC. To address these concerns, the IFRIC indicates in paragraph 59 of the Document that "two IOSCO observers attended all Agenda Committee meetings and could comment if they were concerned about any aspect of issue selection". We are uncomfortable with the IOSCO observers being considered as the counterbalance to the dominance of the accounting firms since IOSCO observers are not voting members. Therefore, the SC1 recommends that the Agenda Committee be expanded by two members to provide a better balance or representation of the IFRIC. Currently, the four members are from the four largest accounting firms.

We appreciate the opportunity to comment on the draft interpretation. If you have any questions, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Scott A. Taub  
Chair

IOSCO Standing Committee No. 1