



IFRS Foundation
To the Trustees
30 Cannon Street
London EC4M 6XH
United Kingdom

interpretations-comm@ifrs.org

10 February 2011

Ref.: FRP/PRJ/HOL/IDS

Dear Sir or Madam,

Re: Review of the operational efficiency and effectiveness of the IFRS Interpretations Committee ('the Committee')

- (1) FEE (the Federation of European Accountants) is pleased to comment on the Review of the operational efficiency and effectiveness of the IFRS Interpretations Committee ('the Committee').
- (2) We have considered all the questions included in the consultation and decided to only comment on those points where we have specific concerns and we believe it could be further improved to increase the operational effectiveness of the Committee.
- (3) We acknowledge the achievements of the Trustees and the Committee in recent years and we do not think there is an urgent need for significant constitutional changes concerning the Committee at present. We believe that the institutional aspects of the Committee are adequate and that major alterations to its activities are not necessarily required.
- (4) We appreciate that, intentionally, the Committee has not issued a high volume of interpretations in response to the numerous requests received from the various industries. We agree with this approach, as we strongly believe that the Committee should not issue detailed industry specific application guidance if we want to retain the principle-based focus of the IFRSs.
- (5) We would however raise questions concerning the concept of the Interpretation and the relationship of the Interpretations committee with the IASB. As previously indicated in FEE's comments on your consultation on annual improvements, there is a need for further clarification on what should be the subject of an Interpretation, what should be an annual improvement and what merits a full project for a new or revised standard.

- (6) We have also set out some concerns on some specific points where we think further enhancement could be made to improve the operational effectiveness of the Committee. Our main comments relate to question 4 concerning agenda criteria.

Agenda Criteria

- (7) A first issue relates to the application of the criteria currently established. As identified by EFRAG, some of the interpretations issued by the Committee are based on tentative decisions taken by the IASB or even internal staff papers which are not in effect and not an authoritative IFRS literature.
- (8) Furthermore, we have concerns that these criteria have not always been consistently applied. For instance, in our response to Draft IFRIC Interpretation Stripping Cost in the Production Phase of a Surface Mine on 10 December 2010, we raised concerns about the proposal in general that it did not achieve its objective of reducing diversity and it did not represent improvements to current accounting requirements. The proposal relies on definition that would be difficult to apply in practice. We thought that IAS 16 already provides an appropriate model in accounting for stripping costs incurred in surface mining activities.

Interaction with Regulators and Enforcement bodies

- (9) In addition, FEE believes that the IFRS Foundation would benefit from having a general discussion with members of the Monitoring Board and other regulators about the interaction between enforcement bodies and the Interpretations Committee. Enforcers have to take decisions that are related to individual cases, and may identify issues that are subsequently included in their public data bases. A problem could arise if at a certain moment there would be a divergence of views between the Committee/the IASB and a decision included in the public data base, e.g. the public database maintained by ESMA (formerly CESR).
- (10) It is imperative that regulators/enforcement bodies continue to raise issues with the Interpretation Committee when they note divergence in practice, especially where divergence relates to cross-border or cross industry issue.
- (11) We appreciate that regulators will have to make decisions in individual cases and will not always have the time available to wait for a Committee decision. However, we would urge enforcement bodies around the world to act with constraint and to recognise the Interpretation Committee /as the ultimate body to decide on IFRS interpretations. This could ultimately benefit users and preparers who have an advantage in consistent application of the standards.
- (12) FEE acknowledges that a too large number of interpretations would not be a useful development. It should also be noted that in the context of principles based standards, the exercise of some judgement will always be necessary, that this is to be welcomed, and that the use of Interpretations as a vehicle to insert specific rules should be resisted. Many of the issues identified by regulators will not require any action by the Committee.

- (13) However, the position of regulators is not isolated. If a significant group of people or countries believes that there might be a significant risk of divergent application (interpretation) of a provision in a standard, it may not be acceptable that the issue is just dealt with in a rejection note with a wording that may be considered somewhat condescending by those who raised the question. Some believe that a mechanism of guidance might be an alternative. At this stage we would not argue that this is the best solution but a reflection should be conducted on this issue. It will always be a matter of balance as to how many issues the Committee does take on, compared to those that are proposed but rejected. It is a balance that cannot be captured in operating procedures. However, we do believe that the balance in the past year may not have been fully achieved, with several sometimes detailed rejection notes being issued, but only one draft interpretation and that on a specific industry issue.
- (14) In addition, we believe that rejection notes should not be written as though they were authoritative guidance, as they are not subject to a full due process.

Interaction with the IASB

- (15) One of the reasons why the Committee often decides not to take on agenda suggestions is that the issue may already be captured in a current IASB project. We believe that this reason for not taking an item onto the Committee's agenda will need to be reconsidered. Current practice means that preparers and users sometimes face uncertainty for quite a long period of time until standards in process of being developed are completed. Too long periods of uncertainty should be avoided.
- (16) Clearly the interpretation should be subordinated to existing standards and should provide specific application guidance on specific issues or clarify existing principles without introducing rules or new principles. Therefore, it should be accepted that the Committee could reach a different conclusion based on a standard that is in the process of being replaced.
- (17) In light of the new and amended IFRSs that the IASB expects to issue in 2011, the Committee can expect increasing number of requests from various industries and therefore the topics to be put on the agenda should be carefully contemplated. In this context, any measures to improve efficiency would be particularly timely.

“Significantly divergent interpretations”

- (18) FEE also wants to emphasise the remark in EFRAG's comments about the concept of “significantly divergent interpretations”. There are examples of situations when the Committee decided that the existing standards are sufficiently clear and conclude that the issue does not meet the interpretative agenda criteria, although some constituents strongly disagreed with the conclusion. It would be useful to reconsider how to gather more evidence about existing divergence in practice, for example by using the Advisory Council or, in particular, national standard setters, to explore what contribution they can make in this area.

Outputs from the Committee

- (19) Finally, FEE would like to add a comment concerning section 5 related to outputs from the Committee, in particular the 30 days delay for responding to a draft interpretation published for public comment. Since FEE is in favour of quicker reactions by the Committee compared to the current situation, we would not suggest increasing this minimum period. However, the Committee should be invited to decide by itself that in certain circumstances, a longer period of e.g. 45 days would be advisable. We suggest IFRIC to make exceptions when the decision is clearly less urgent, more complex or when the call for comments is launched at a difficult period of the year for commentators (for example around New Year).

For further information on this letter, please contact Henri Olivier, Secretary General, at the FEE Secretariat on +32 2 285 40 71 or via e-mail at henri.olivier@fee.be.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Johnson', with a long horizontal stroke extending to the right.

Philip Johnson
President