



AUTORITE DES NORMES COMPTABLES

3, Boulevard Diderot
75572 PARIS CEDEX 12

Phone 33 1 53 44 52 01

Fax 33 1 53 44 52 33

Internet <http://www.anc.gouv.fr/>

Mel jerome.haas@anc.gouv.fr

Chairman

JH

n°58

Paris, the 18th February 2011

IFRIC
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

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

Dear Madam or Sir,

The ANC welcomes the review undertaken by the Trustees regarding the operational efficiency and effectiveness of the IFRS IC.

The ANC notes that IFRSs aim at being principle-based standards that are applied in varying and various economic and legal backgrounds. In such a context, the ANC supports the objective of the IFRS IC of avoiding a rule-oriented environment.

Even though the limited number of interpretations issued appears to contribute to that objective, there are some concerns around the consistency and the transparency of the whole process, for instance in terms of the background, number and nature of the request submitted to the IFRS IC, in the assessment of the agenda criteria and its documentation as well as on the wording, the time given to respond and the consequences of the rejections issued by the IFRS IC. In addition, there are some general concerns as regards the level of application guidance within IFRS and, in the case of a lack of guidance, the body (IASB or IFRS IC) to which the issuance of such guidance should be entrusted to. In this context, in terms of the IFRS IC's activities, the ANC, in its comment letter on the criteria for annual improvements dated 23rd December 2010 and attached as an appendix, has expressed some concerns. Therefore, more should be done in order to ensure the robustness and the transparency of the process. Also, in view of the principle-based nature of the standards and of the growing number of jurisdictions imposing or authorising the use of IFRS, a better selection should be done of the issues that should be dealt with on an international level.

Our detailed comments on the questions posed in the questionnaire are set out in the Appendix to this letter. Should you wish more information regarding our answers, do not hesitate to contact us.

Yours sincerely,

Jérôme HAAS

1. Objectives and scope of activities of the Interpretations Committee

1. The Committee's stated objectives and scope of activities are appropriate to assist the IFRS Foundation and the IASB in meeting the objective of promoting the use and rigorous application of IFRSs.
2. The Committee understands its objectives and how these link with those of the IFRS Foundation and the IASB. This is reflected in the functioning of the Committee.
3. The Committee's activities appropriately reflect its objectives.
4. The Committee's experience and expertise are being efficiently and fully utilised by the IASB.

The ANC notes that “*the IFRIC reviews newly identified financial reporting issues not specifically addressed in IFRSs or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance, with a view to reaching a consensus on the appropriate treatment*” (IFRIC Due process handbook § 5).

Avoiding a rule-oriented environment

IFRSs are standards which aim at being applied across a wide number of jurisdictions. As such, they need to be based on principles that are broad enough that they may be applied as consistently as possible in the context of each of those jurisdictions. It follows that a certain degree of diversity therefore is acceptable because it is inevitable in view of the differences in and specificities of local and/or regional legal contexts of the jurisdictions where IFRSs are applied. The ANC recognises that such balance is difficult to achieve and that the due process handbook also states that “*in providing interpretative guidance, the IFRIC is not seeking to create an extensive rule-oriented environment*” (IFRIC Due process handbook § 6). The ANC considers that the IFRS IC has so far been rather efficient in this respect, when considering the number of interpretations issued since its inception as compared to the number of requests the committee has dealt with. The ANC does however have some concerns as regards the number of rejection decisions in the sense that some issues could well have benefited from some form of interpretation or guidance as well as the fact that some rejections may in effect be considered to be “quasi-interpretations”.

However, with more jurisdictions intending to adopt IFRS in the coming years but also with the numerous and significant new upcoming standards and new concepts, one may wonder whether the IFRS IC will be put under more pressure to issue interpretative guidance. It is in any case all the more important that the IFRS IC keeps the objective of avoiding a rule-oriented environment in mind and that its due process is robust enough to support such an objective. In this context, one may consider that if IFRSs are principle-based and of high quality, the issuance of interpretations or guidance should remain marginal. Accordingly a balance needs to be found as regards the appropriate level of guidance to be issued together with a new standard as evidenced by respondents in their comment letters to the IASB.

One way of reinforcing the robustness of the process would be that, when IFRSs are issued, a number of years of application would be effective before post-implementation reviews are conducted to identify the issues that would have to be dealt with. In this context, the issues would be analysed and differentiated between practical issues, which would be a matter of implementation and maybe at a local level because of the specificities of the local context, and more fundamental issues, in which case the solution would lie in amending the standards.

In this respect, the ANC notes that, although § 50 of the due process handbook states that “*the IASB staff maintain liaison with national standard-setters (NSSs) and national interpretative groups (NIGs) to identify interpretative issues that the IFRIC might need to consider*”, this has, in effect, happened on a very infrequent basis, even though in the February 2006 “Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters”, it is recognised that National Standard Setters should be familiar with the implementation of IFRSs in their jurisdiction. Therefore, in the spirit of the IASB’s statement at the September 2010 World Standard Setters Meeting, there is a case for involving national standards setters more.

Scope of IFRS IC activities - Annual improvements versus interpretations

The ANC would like to refer the Trustees to its concerns about confusion between annual improvements and interpretations expressed in its letter dated 23rd December 2010 (also attached as an appendix to this letter) regarding their consultation on the criteria for the annual improvement process without repeating those concerns in the present letter.

2. Membership

5. The Committee has a sufficiently broad range of collective expertise, experience and geographical balance to ensure its effective and efficient operation. The Committee membership achieves an appropriate balance of backgrounds and experience.
6. The size of the Committee is appropriate to achieve diversity of experience and background without being too large.

The ANC notes that the IFRS IC's membership covers a wide range of geographical and professional background and expertise.

Regarding professional background and expertise, the ANC notes the absence of users in its membership.

As for geographical backgrounds, some members come from jurisdictions which do not yet apply IFRSs. Whilst we recognise the importance of understanding different jurisdictional backgrounds and practices, especially in the context of multinational companies, we refer the Trustees to the proposals we will formulate in our response to their Strategy review by 24 February 2011. The ANC does not have any specific comments regarding the size of the IFRS IC.

3. Operating procedures

7. Committee meetings are efficient and effective in terms of :
 - a) Frequency ;
 - b) Length ;
 - c) Geographical location (London) ;
 - d) Quality and agenda material ;
 - e) Quantity of agenda material ;
 - f) Timely provision of agenda materials (observer notes).
8. There is high quality participation and interaction in the discussion by Committee Members in reaching consensus.
9. Committee meetings are productive and achieve their full potential.
10. The Committee is optimally placed to meet the future demand of stakeholders.

The ANC notes that the frequency and length of the IFRS IC's meetings largely depend on the number and extent of the issues and tasks entrusted to it (ie at present such as dealing with the annual improvements). In this respect, the current one-to-two day meetings six times a year do not appear inadequate.

In terms of the agenda material, the ANC would like to draw the attention to the fact that some papers, in the way they are worded, may in fact raise even more questions or divergences, thus leading to potentially more issues in terms of their potential consequences. Therefore, the status and wording of such papers may benefit from some clarification.

Moreover, the ANC has concerns as regards the transparency of the process leading to an issue being presented to the committee, such process, in our view, impairing the quality of the agenda material. These concerns relate to the following aspects :

- Absence of a public list of “backlog” issues ;
- Absence of information regarding the geographical and professional background of the issues submitted to the committee;
- Insufficient description of the work carried out by the staff to assess the agenda criteria: who was consulted (audit firms, national standard setters, others...), what the responses were (with geographical analysis, etc..).

4. Agenda criteria

11. The criteria for the Committee’s interpretative agenda are appropriate and adequate.

12. The agenda criteria are applied appropriately and consistently.

The ANC considers that the criteria for the IFRS IC’s interpretative agenda are not always appropriately nor consistently applied, especially since the assessment process is, in our view and as indicated in our answer to question 3, insufficiently documented and transparent.

For instance, regarding the assessment of whether an issue is widespread and has practical relevance, the ANC thinks that such an assessment typically needs to be better documented and evidenced in terms of how the assessment was performed (requests/outreach to NSS, auditors, regulators, preparers, users) and what the answers were.

We also note that in some instances such as recently on the issue of put options on minority interests, the ANC responded to the tentative agenda decision (letter dated 4th October 2010) arguing that the IFRS IC had not appropriately applied its criteria and objectives (impossibility for the IFRIC to resolve conflicts between standards) but was also, in effect, producing a “quasi-interpretation”. It is therefore important that the proposed wording for rejections are not worded so as to appear to be interpretations. We understand that other cases exist in this respect.

The ANC also notes that the majority of rejections are based either on the fact that the standard is clear and/or that no diversity is expected in practice and also on referrals to the Board to treat the subject be it through the annual improvement process (now carried out by the IFRS IC) or because the Board has a project on the subject. Given the lack of status of such rejections, constituents are left with a number of open questions, for instance :

- when a standard is considered to be “clear” but the company was not applying the accounting treatment, what are the consequences ?
- when a subject is rejected based on the fact that the Board has a project on the subject, what happens when the said-project drags on or does not deal with the issue ?

5. Outputs from the Committee

13. The interpretations issued and annual improvements proposed meet the needs of the IASB and the IFRS Foundation.
14. The interpretations issued are effective (their number, frequency and content) in meeting the needs of constituents.
15. The annual improvements issued are effective (their number, frequency and content) in meeting the needs of constituents.
16. Agenda decisions are issued when the Committee decides not to take an issue onto its agenda. Some of these agenda decisions do not propose any further action. The content of such agenda decisions is appropriate and sufficient when :
 - a) The Committee believes the standards provide sufficient guidance ;
 - b) The Committee is unable to reach a consensus.
17. The consultative due process for agenda decisions is appropriate and sufficient.

The ANC has, in its answer to question 1 on objectives and scope, already stated that it considered that the IFRS IC has so far been rather efficient in avoiding a rule-oriented environment as regards the issuance of interpretations. However, the ANC notes that the degree of importance/significance of the interpretations varies significantly from one interpretation to another and that some rejections could have benefited from some form of interpretation as well as the fact that some rejections may in effect be considered to be “quasi-interpretations”. Moreover, the ANC notes that lengthy discussions may occur with regard to some issues but to no result.

As regards annual improvements, we refer the Trustees to our letters dated 4th December 2009 and 23rd December 2010 regarding the criteria for annual improvements [The letter dated 23rd December 2010 is attached as appendix to this letter], especially as regards the ANC’s concerns regarding the difference between interpretations, annual improvements and other Board amendment projects.

As regards agenda decisions, the ANC notes that a 30-day consultation period is often too short a time to answer a tentative agenda decision, especially within the context of significant IASB projects submitted to consultation at the same time, a situation that has been constant over the last three to four years.

As previously mentioned, the ANC notes that the wording of some of the agenda decisions is, in effect, a quasi-interpretation. Others misrepresent the actual description of the facts to actually come to conclusion, for instance the existence of a conflict between standards in the case of the recent tentative agenda decision regarding put options on non-controlling interest (as referred to in question 4). In the latter case, although the IFRS IC did actually take action based on the comment letters received, the ANC wonders how such a tentative decision could even have been published in the first place, taking into account the IFRIC Due Process Handbook.

As regards agenda rejections, the ANC notes the difficulty such rejections pose, depending on the way they are worded and the reasons for the rejection, in terms of their status and their accounting consequences.

6. Communications

18. The Committee's communications are optimal and effective (IFRIC Update and post-meeting podcast).
19. When appropriate, the Committee and/or the Committee staff liaises effectively with other similar interpretations bodies and National Standard Setters.
20. The Committee's activities are sufficiently transparent to stakeholders.

The ANC does not have any specific comment as regards the IFRS IC's external communications (Update and podcast).

We refer to our answer to question 1 on scope and objective as regards the appropriateness and effectiveness of the liaison with other similar interpretations bodies and National Standard setters.

In terms of reinforcing transparency of the IFRS IC's activities, the ANC would like to suggest that a list of issues be made public and updated when new requests are made, together with the tentative dates at which the issues are intended to be debated.

7. Leadership

21. Please rate the effectiveness of the Chair :
 - a) Discussions are at the appropriate level of detail ;
 - b) Discussions are focused on the right issues ;
 - c) Issues are identified and deliberated in a timely and effective manner.

The ANC does not have any specific comment in this respect.

8. Interaction with the IASB

22. The Committee interfaces effectively with the IASB.
23. The IASB responds effectively to the IFRS Interpretations Committee's recommendations.

With the exception of the concerns raised in our letter dated 23rd December attached to this letter as regards confusion between standards' amendments, annual improvements and interpretations, the ANC does not have any other specific comment in respect of the interaction of the IFRS IC with the IASB.

9. List three aspects of Committee’s activities that, in your opinion, are working best.

The ANC recognises that the IFRS IC has so far avoided issuing interpretative guidance leading to a rule-oriented environment in terms of the number of interpretations and encourages the IFRS IC to pursue in this manner, with the caveat that rejections should not be worded so as to be “quasi-interpretations”.

The external communications put in place in terms of public meetings, IFRIC Update and meeting podcast appear adequate.

10. List three aspects of Committee’s activities that, in your opinion, are in the most need of improvement.

The ANC has concerns about the transparency, appropriateness and consistency of the process and of the assessment of the agenda criteria, especially in the assessment of the widespread nature of an issue and its practical relevance.

The ANC is concerned that some tentative and final agenda decisions are worded in such manner that they are “quasi-interpretations”. Moreover the status and accounting consequences of such decisions appears unclear depending on the reasons provided for the rejection.

The ANC notes that a 30-day consultation period as regards tentative agenda decisions appears too short, especially in the context of significant other IASB consultations.

11. Do you have any suggestions on improving the process of assessing the Interpretations Committee ?

The ANC does not have any comments regarding the process of assessing the IFRS IC.