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Le Président

AB/PhS

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Göran Tidstrom
Supervisory Board Chairman EFRAG
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EFRAG DRAFT COMMENTS ON IFRIC DRAFT DUE PROCESS HANDBOOK

Dear Göran,

I am writing on behalf of the Conseil National de la Comptabilité to give you our comments on the above-mentioned Efrag draft comment letter. Our detailed comments are set out in the draft reply to the IASCF in the Appendix.

We agree with the views expressed in the Efrag draft subject to the following:

Agenda criteria

We disagree with the Efrag when it expresses its agreement with the agenda criteria in §28 of the IFRIC draft (see Efrag response to Question 2).

In §28 the IFRIC draft stipulates that “The Ifric will not add an item to its agenda if the IFRSs are clear”. Although there is ambiguity as to whether the IFRIC draft actually intends this sentence to form part of the agenda criteria, the affirmation that the IFRSs are clear is often used in practice to justify not taking an issue onto the agenda.

We feel strongly that “the IFRSs are clear” is not a valid agenda criterion. The notion of clarity is highly subjective and indeed the IFRIC itself is often divided on such issues. The very fact that correspondents request an IFRIC interpretation would suggest that the IFRSs might not be clear. The affirmation that “the IFRSs are clear” is already in itself an implicit interpretation and our suggestion set out below is that clarifications of IFRSs could be dealt with as interpretations after following an appropriate due process.

Wordings for rejection

We agree with the Efrag’s analysis that wordings for rejections often have the characteristics of interpretations and should therefore follow the corresponding due process.

We do however have the following additional comments:

(a) We suggest completing these remarks with a recommendation. Some correspondents consider that some clarifications of standards may not require the full interpretative process.

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Consequently we suggest that the IFRIC might examine the possibility of a simplified due process for such clarifications .We strongly recommend that such clarifications be given IFRS interpretative status and authority.

(b) Changes to financial statements resulting from the application of “interpretative” wordings for rejections appear to many correspondents to be implicitly “corrections of errors”. This is because “wordings for rejection” do not have IFRS status even when in substance they are interpretations .A clarification of the classification of such changes to financial statements is therefore necessary .However, if the IFRIC does not intend that “interpretative” wordings should be used to change financial statements then these wordings should be eliminated.

I trust you have found these remarks useful and would be pleased to provide such further information or explanations you may require.

Yours sincerely,

Antoine BRACCHI

APPENDIX

IASCF

DRAFT DUE PROCESS HANDBOOK FOR THE IFRIC

Question 1 – Agenda Committee

The Agenda Committee assists the IASB staff in presenting issues to the IFRIC so that the IFRIC can decide whether to add an issue to its agenda (paragraph 23). The Agenda Committee is not a decision-making body and does not meet in public (paragraph 26). The Agenda Committee reports to the IFRIC at its regular meetings on the issues the Agenda Committee considered and the Agenda Committee's recommendation on each issue (paragraph 27).

Do you agree with the Agenda Committee process described in paragraphs 23-27? If not, what changes do you propose, and why?

CNC's remarks

We have the following remarks with respect to the transparency and efficiency of the process.

As the IFRIC is the only organisation officially authorised to interpret IFRSs and it has to deal with worldwide agenda inclusion requests, it is particularly important that its due process should be seen to be fair and transparent.

We therefore recommend that the following should be stipulated in the manual:

- 1.The Agenda Committee meetings should be held in public.
- 2.The composition of the Agenda Committee should be representative and balanced.

The presentation of issues to the IFRIC will be influenced by the experience and background of the members of the Agenda Committee and it is therefore important that the Committee should be as balanced and representative as possible.

- 3.The list of issues submitted to the IFRIC and their scheduling should be published on the IASB website.

We are concerned that the final decision with respect to agenda requests should effectively be taken by the IFRIC and that any prior filtering of issues should be transparent and controlled. We suggest that an "audit trail" should exist so that submissions could be monitored at each stage of the process from the reception of a submission to the final decision of the IFRIC. Reasons for excluding submissions should be clearly visible.

4. The respective roles of the IASB staff and the Agenda Committee in the selection of issues should be clarified.

At stage 1:the Identification of issues, §19 and §20 indicate that submissions pass between the hands successively of the IFRIC co-ordinator and IASB staff.

§20 stipulates that the IASB staff "consider whether the item meets the agenda criteria".

We think that there should be a trace at stage 1 of submissions excluded including the reason for their exclusion so that the IFRIC has the possibility of reconsidering its position.

At stage 2: Agenda Committee and new agenda items §23 stipulates that "The Agenda Committee assists the staff in presenting the issues to the IFRIC so that the IFRIC can decide whether to add an issue to its agenda."

§23 suggests that the IASB staff have the decisive role in selecting issues for presentation to the IFRIC. We think the respective roles of the IASB staff and the Agenda Committee should be clarified. In particular, the procedure for resolving differences between the IASB staff and the Agenda Committee should be defined with the final decision remaining with the IFRIC.

5. Agenda proposals originating from within the IFRIC should follow the same due process as requests from outside.

Question 2 – Agenda criteria

The IFRIC assesses proposed agenda items against the criteria listed in paragraph 28. For inclusion in the agenda an issue does not have to satisfy all the criteria.

Do you agree with the agenda criteria listed in paragraph 28? If not, please specify the criteria you would add, alter or delete, and explain why.

CNC's remarks

We are in agreement with the criteria subject to the following remarks:

1. The last two sentences of §28 would appear to duplicate criteria (b)/(d) and (f) of that paragraph: "The IFRIC will not add an item to its agenda if the IFRS's are clear, with the result that divergent interpretations are not expected in practice. The IFRIC will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the IFRIC requires to complete its due process.» We suggest deleting these sentences if they are effectively duplication. Should this not be the case, they should be differentiated by making them more explicit as additional selection criteria or as explanations of existing criteria.

2. A common reason for not adding items to the agenda (we understand around 50% of refused requests) is because the IFRIC considers the relevant IFRS to be clear.

We do not believe that the clarity of an IFRS is a valid criterion for not taking an issue onto the IFRIC agenda :

-clarity is a highly subjective notion often illustrated by the lack of unanimity within the IFRIC itself when voting on agenda issues

-an implicit interpretation is necessary to arrive at the conclusion that an IFRS is "clear"

The consequences for the consultation process regarding issues not taken onto the agenda is set out in our answer to Question 3.

3. We are concerned that non-technical criteria related to the internal functioning of the IFRIC should be motives for rejecting an issue.

We refer to §28(e) relating to whether "the IFRIC will be able to reach a consensus on a timely basis".

We consider that if the technical criteria in §28 (a) to (d) are met, then the only open question should be the date of taking the issue on to the agenda.

Where, as described in §31, the IFRIC fails to reach a consensus we feel that the wording in the last sentence "may recommend that the matter be taken up by the IASB" is too weak. We would suggest that the IFRIC "must refer the matter to the IASB and should recommend, wherever appropriate, that the matter be taken up by the IASB".

4. With respect to the criterion §28(a) “widespread and practical relevance” we suggest that this criterion could be presumed to be met when the request for inclusion comes from a professional organisation representing a major part of the economy or an industry.

We believe that requests that come from organisations representing important sections of the economy are likely to be more relevant and of better quality since they would be :

- representative of significant sectors of the economy or an industry (widespread and relevant)
- genuine interpretative issues where there is a significant risk of divergent interpretation
- technically sound and likely to improve the quality of financial reporting
- less numerous and therefore more likely to be dealt with rapidly and efficiently.

To this extent we suggest that such issues could receive priority treatment when deciding inclusion on the agenda.

Question 3 – Consultation regarding issues not added to the IFRIC agenda

A consultative period applies to issues that are not added to the agenda. The draft reason for not adding an item to the agenda is published in the IFRIC Update and electronically on the IASB Website with a comment period of about 30 days.

Do you agree with the consultative process for issues that are not added to the IFRIC agenda? If not, what changes do you propose, and why?

CNC’s remarks

We identify two main issues :

- a clarification of the status of “wordings for rejection” which have the characteristics of interpretations and should follow the appropriate due process
- improvements to the due process relating to issues not taken onto the IFRIC agenda

1. Wordings for rejection having the characteristics of an interpretation

We refer to §30 of the draft from which we infer that “wordings for rejections” are not considered as interpretations:

“The reasons for not adding an item to the IFRIC agenda are posted on the IASB Website as a historical record of decisions taken. That record is not updated as standards are amended and does not form part of IFRSs.”

In spite of the IFRIC’s intentions that “wordings for rejection” do not form part of IFRSs, where detailed explanations are given of why an IFRS is considered to be clear they may appear in substance to be an implicit interpretation, especially when they include new argumentation. Such explanations are liable to create a source of doctrine, which has not undergone the full due process.

Currently the status of wordings for rejection is unclear .Since they are not part of IFRSs they would not have mandatory status. What would be the status of non-mandatory changes to the financial statements resulting from wordings for rejections? Because wordings for rejection are not currently considered to be interpretations some correspondents would treat the changes they bring about in financial statements as corrections of errors. It is therefore essential that the status of these changes be clarified as we do not believe they are in substance corrections of errors.

“Clarity of an IFRS” cannot be a valid criterion for not bringing an issue on to the agenda .An interpretation is necessary to establish the “clarity” of IFRSs and interpretations should ,by definition, be on the agenda .If an issue is excluded from the agenda then for the same reason no interpretative matter should be given in the wording for rejection.

We believe that all interpretations should follow the relevant due process .If the IFRIC considers that some interpretations of IFRSs (e.g. where a simple “clarification” of an IFRS is required)could be dealt with more simply and rapidly than via the existing interpretative due process , it should consider defining an appropriate simplified procedure providing sufficient guarantees.

However ,all interpretations should have the same full IFRS status and where these interpretations result in changes to the financial statements, the latter are considered considered to be changes in accounting policies in accordance with IAS 8 and not corrections of errors.

2. Improvements to the due process relating to issues not taken onto the IFRIC agenda

In order to improve the process relating to issues not taken onto the agenda we suggest :

- the criterion that “the IFRS is clear” should be dropped (see our explanations relating to Question 2)
- no interpretative information should be given for items not taken onto the agenda

We would therefore recommend that the IFRIC justify their decisions by reference to the criteria (a) to (f) in §28 without giving further detail .

Question 4 – Relationship with national standard-setters and interpretative groups

The IFRIC’s relationship with national standard-setters (NSSs) and interpretative groups (NIGs) is described in paragraphs 54 and 55.

- (a) Do you agree that NSSs and NIGs should be encouraged to refer interpretative issues to the IFRIC? If not, why not?**
- (b) Do you agree that the IFRIC should not consider local interpretations and comment on whether they are either consistent or inconsistent with IFRSs? If you disagree, please explain why.**

CNC’s remarks

§54 and §55 of the draft deal very succinctly with the important subject of the international organisation of interpretation which would in itself merit a separate exposure draft .It would be necessary to define what interpretation means in a principle based system and what role the draft implies for “local interpretation”.

- (a) We agree in principle .We also note that no reference is made in §54 to a liaison between the IASB and a possible European co-ordination of interpretative matters.

(b) §55 states “The IFRIC , however, will not give assurance that a local interpretation is either consistent or inconsistent with IFRSs.”

We are not sure what role this statement implies for “local interpretation”.

Whatever meaning is given to local interpretation the IFRIC, we agree that the IFRIC is not responsible for conferring IFRS status on it.