

Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

EFRAG
35 Square de Meeûs
B-1000 Brussels
BELGIUM
commentletter@efrag.org

20 January 2009

Re: *Draft comment letter to Exposure Draft of Proposed Amendments to IFRIC 9 and IAS 39 Embedded Derivatives*

Dear Sir/Madam

We are pleased to provide our comments on your draft comment letter to *ED of Proposed Amendments to IFRIC 9 and IAS 39 Embedded Derivatives*.

We welcome the IASB's proposal to clarify the treatment of embedded derivatives as we agree that the reclassifications of financial assets, allowed by the October 2008 Amendment to IAS 39, trigger in turn a reassessment of embedded derivatives.

However, we have some concerns regarding the circumstances to consider when the entity assesses the embedded derivatives on reclassification and the proposed effective date.

Our comments are as follows:

Question 1 and Question 2

The exposure draft clarifies that an entity must assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category. Do you agree with that clarification? If not, why? What would you propose instead, and why?

The exposure draft requires the assessment to be made on the basis of the circumstances that existed when the entity first became a party to the contract. Do you agree with that proposal? If not, why? What would you propose instead, and why?

The IASB proposes that the an entity should assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when a

financial asset is reclassified out of the fair value through profit or loss category (hereinafter "FVTPL"). Such an assessment should be made on the basis of the circumstances that existed when the entity first became a party to the contract.

We support the IASB's proposal for make it clear that an entity should reassess whether the derivative component of a hybrid (combined) financial asset needs to be separated when the entity reclassifies a financial asset out of FVTPL, in adoption of October 2008 Amendment to IAS 39.

Paragraph 7A of the proposed amendment to IFRIC 9 requires that such assessment "shall be made on the basis of circumstances that existed when the entity first became a party to the contract." Complying with this requirement could not be feasible, especially when the inception of the contract occurred in not recent years and the entity could not have maintained sufficient information to make the assessment.

In these cases, reassessing whether the derivative instruments shall be separated from the host contracts could be influenced by hindsight.

Therefore, we believe that the amendment shall require that, although the contractual terms have not been changed, the assessment in order to separation should be made with reference to the date of reclassification of the host financial asset.

Question 3

The exposure draft proposes that if the fair value of an embedded derivative that would have to be separated cannot be reliably measured, the entire hybrid (combined) financial instrument must remain in the fair value through profit or loss category. Do you agree with that proposal? If not, why? What would you propose instead, and why?

We agree on maintaining the entire hybrid financial instrument in the FVTPL category if the entity is unable to measure separately the embedded derivative upon reclassification.

Question 4 and Question 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

The exposure draft proposes that the amendments should be applied to annual periods ending on or after December 15, 2008.

We believe that in this case it would be more appropriate backdating the effective date of the proposed amendment. We think that the effective date should be aligned to the earliest date on which a reclassification was possible under October 2008 amendment to IAS 39, therefore it should be July 1, 2008.

Should the backdating not be practicable, we suggest that such amendment becomes effective for annual periods beginning on or after 1 January 2009, permitting an early adoption coherent with the date in previous paragraph.

Yours sincerely,

Angelo Casò
(OIC Chairman)