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EFRAG Supervisory Board
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Re: OIC comments on the “ED of Proposed Amendments to IAS 27 *Consolidated and Separate Financial Statements*”.

Dear Sirs,

We are pleased to provide our comment on the “ED of Proposed Amendments to IAS 27 *Consolidated and Separate Financial Statements*”.

We take the opportunity to make clear our concern that the Board ought to address at this stage the accounting aspects of business combinations under common control. It is an important issue that needs to be resolved quickly in order to avoid different accounting solutions for similar cases.

Question 1

Draft paragraph 30° proposes that changes in the parent’s ownership interest in a subsidiary after control is obtained that not result in a loss of control should be accounted for as transactions with equity holders in their capacity as equity holders. As a result, no gain or loss on such changes would be recognised in profit or loss (see paragraph BC4 of the Basis for Conclusions).

Do you agree? If not, why not and what alternative would you propose?

Answer

We disagree with the proposed treatment in coherence with our answer to the ED of Proposed Amendments to IFRS 3. Our view is based on our preference for the parent entity approach rather than the economic entity approach.

Question 2

Paragraph 30D proposes that on loss of control of subsidiary any non-controlling equity investment remaining in the former subsidiary should be remeasured to its fair value in the consolidated financial statements at the date control is lost. Paragraph 30C proposes that the gain or loss arising on loss of control (see paragraph BC7 of the Basis for Conclusions).

Do you agree that the remaining non-controlling equity investment should be remeasured to fair value in these circumstances? If not, why not and what alternative would you propose?

Answer

We disagree with the proposal that gains or losses from re-measuring the remaining non-controlling equity investment to fair value should be included in the calculation of the gain or loss of control. We have difficulties accepting the proposal where the investment remains a jointly controlled entity or an associate.

We disagree in remeasuring the remaining equity investment since no transaction has taken place on such investment.

Question 3

As explained in Question 1, the Exposure Draft proposes that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control should be treated as transactions with equity holders in their capacity as equity holders. Therefore, no gain or loss would be recognised in profit or loss.

However, a decrease in the parent's ownership interest resulting in the loss of control of a subsidiary would result in any gain or loss being recognised in profit or loss for the period. The Board is aware that differences in accounting that depend on whether a change in control occurs could create opportunities for entities to structure transactions to achieve a particular accounting result.

To reduce this risk, the Exposure Draft proposes that if one or more of the indicators in paragraph 30F are present, it is presumed that two or more disposal transactions or arrangements that result in a loss of control should be accounted for as a single transaction or arrangement. This presumption can be overcome if the entity can demonstrate clearly that such accounting would be inappropriate (see paragraphs BC9-BC13 of the Basis for Conclusions).

Do you agree that it is appropriate to presume that multiple arrangements that result in a loss of control should be accounted for as a single arrangement when the indicators in paragraph 30F are present? Are the proposed factors suitable indicators? If not, what alternative indicators would you propose?

Answer

Yes, we agree that the factors proposed in paragraph 30f are suitable indicators for whether a multiple arrangement that results in a loss of control should be accounted for as a single arrangement. We suggest introducing the motivation included in the Basis for Conclusions in the standard because it could be applied in other similar cases. In fact, it is an application of substance over form.

Question 4

Paragraph 35 proposes that losses applicable to the non-controlling interest in a subsidiary should be allocated to the non-controlling interest even if such losses exceed the non-controlling interest in the subsidiary's equity. Non-controlling interests are part of the equity of the group and, therefore, participate proportionally in the risks and rewards of investment in the subsidiary.

Do you agree with the proposed loss allocation? Do you agree that any guarantees or other support arrangements from the controlling and non-controlling interests should be accounted for separately? If not, why not, and what alternative treatment would you propose?

Answer

We disagree.

Although the non-controlling interests share in the results of the subsidiary (but are unable to influence its management), they do not have to be compelled to cover the deficit (unless otherwise specifically agreed) and it is reasonable to assume that, should the subsidiary call for additional capital in order to continue operations, the non-controlling interests would prefer to abandon their investment. On the other hand, the controlling interest has an implicit obligation to maintain the subsidiary as a going concern. Therefore, we suggest that, in the absence of specific agreements, the allocation of losses to the non-controlling interests should cease when the non-controlling interest has been reduced to zero.

In view of the above, support arrangements should be considered and accounted for separately where they do not affect the situation outlined above.

Question 5

The transitional provisions in the Exposure Draft propose that all of its requirements should apply retrospectively, except in limited circumstances in which the Board believes that retrospective application is likely to be impracticable.

Do you agree that proposed paragraphs 30A, 30C and 30D should apply on a prospective basis in the cases set out in paragraph 43B? Do you believe that retrospective application is inappropriate for any other proposals addressed by the Exposure Draft? If so, what other proposals do you believe should be applied prospectively and why?

Answer

We would prefer a prospective application because it is not reasonable to keep adjusting past operations in order to keep up with continuing amendments issuing from the IASB. It is very expensive for companies and does not enhance the credibility of the accounting rules.

Yours sincerely

Prof. Angelo Provasoli
(OIC – Chairman)