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Re: Exposure Draft of Proposed Improvements to IFRSs

Dear Sirs,

we are pleased to have the opportunity to comment on the EFRAG Draft Comment Letter on the *Exposure Draft of Proposed Improvements to IFRSs*. This letter is submitted in OIC's willingness to contribute to EFRAG's efforts to express its views on the Exposure Draft mentioned above.

General

In this Exposure Draft, the Board has sometimes amended the sections "Basis for Conclusions" or "Appendices to the IASs/IFRSs" for introducing new concepts, additional clarifications or explanations relating to specific matters. These changes have been presented without correspondent amendments of the current content of the relevant Standards.
Although we understand that this approach may have been justified by the need to propose amendments in a short time, we are seriously concerned with this method, since:

- The sections "Basis for Conclusions" and "Appendices" are not an integral part of the standard, unless the Standard specifically so states. In such a case, although the matters there treated certainly do represent the Board's viewpoint, they may confuse the users of the Standard as to their obligatory application. Consequently, making reference to them in order to support the choice of an accounting treatment – for example, in a disclosure – might be questionable.
- The sections "Basis for Conclusions" and "Appendices" not being an integral part of the Standard are not subject to the endorsement mechanism by the European Commission. This might be also the case for those jurisdictions where the International Accounting Standards are to be enforced by those jurisdiction's legal regulations.
- The amendments included in such sections are immediately effective, thus overcoming the usual time allowed by the Standards for their effective date.
- Because of the foregoing, there is the likelihood that the users of IFRSs do not pay to such sections the same degree of attention and care they otherwise would give to the Standard itself bearing in mind that they are not obliged to follow the pronouncements included in Appendices or Basis for Conclusions.

We therefore strongly recommend that the Board reconsider its approach and propose the relevant amendments or clarifications as changes to the standard, including the effective date for their applicability.

Specific Issues

Issue 1: IFRS 2 *Share-based payment*: Scope of IFRS 2 and the revised IFRS 3

Paragraph 5 of IFRS 2 makes clear that IFRS 2 does not apply "to transactions in which the entity acquires goods as part of the net assets acquired in a business combination to which IFRS 3 applies". However, since in the revised IFRS 3 the definition of business combination "bringing together of separate entities or business into one reporting entity" has been changed to one focused on obtaining control of *businesses*, rather than *entities*, the formation of a joint venture no longer meets the definition of a business combination. In revising IFRS 3, the IASB did not discuss whether it intended IFRS 2 to apply to these transactions. It should also be considered that IFRIC "decided to recommend that the Board should consider amending IFRS 2 to add the general principles developed by the staff rather than continuing to develop specific guidance case by case" (see IFRIC Update July 2008, pages 2-3).

We believe that the formation of joint ventures should continue to be accounted for in accordance with the provisions of IAS 31. Accordingly, we agree with the proposal to clarify that IFRS 2 does not apply to joint ventures and common control transactions.

In connection with the foregoing, we would also like to take the opportunity to express our strong recommendation that the project "Common Control Transactions", presently included in the IASB's agenda at a to-be-determined date, should be started as soon as possible.

Issue 2: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Disclosures required for non-current assets (or disposal groups) classified as held for sale or discontinued operations

Paragraphs 30 and BC17 of IFRS 5 require to present and disclose information to enable users to estimate the financial effects of discontinued operations and disposals of non-current assets (or disposal group), and to assess the timing, the amount and the level of uncertainty of future cash flow. Other information, required by other standards for items included in a disposal group on the assumptions that such items are used by an entity on an ongoing basis are therefore not relevant.

We therefore agree with the IASB's solution, proposed in paragraphs 5A and 44D of the Exposure Draft.

Issue 3: IFRS 8 *Operating Segments* – Disclosures of information about Segment Assets

According to paragraph 23 of IFRS 8 an entity shall report a measure of total assets for each reportable segment. Such requirement seems to be inconsistent with both paragraph 25 by which "only those assets… included in the measures of the segment assets… that are used by the chief operating decision maker shall be reported for that segment" whilst paragraph BC35 states that "measures of segment profit or loss and total segment assets should be disclosed for all segments regardless of whether those measures are reviewed by the chief operating decision maker". Paragraph BC 35 was introduced with the aim to converge with US GAAP.

However, the current US GAAPs requirements are not fully in line with the IASB ones. Therefore, IASB is now proposing to amend BC35 to make it clear that only those assets, included in the measures of the segment assets, that are used by the chief operating decision maker shall be reported for that segment.

We agree with the approach of reporting segment information "through the eyes of management". We also agree with the proposal to provide only the disclosures presented to the chief operating decision maker. However, in order to avoid any arbitrary behaviour, we believe that it would be appropriate to explain in the notes *why certain disclosures are not provided* to the chief operating decision maker.

On the other hand, we disagree with the method to effect such a change. Amending only the Basis for Conclusions without changing the standard is not a change because the Basis for Conclusions are not an integral parte of the standard.

Issue 4: IAS 7 *Statement of Cash Flows* – Classification in the cash flow statement of expenditures on unrecognised assets

The IASB proposes to clarify that expenditures, incurred with the objective of generating future cash flows when they are not recognised as assets, should be classified in the cash flow statement as cash flows from operating activities and not from investing activities. This specification would correct different practices in order to align the classification of these expenditures in the cash flow to their accounting treatment. This clarification is proposed to be extended to the Basis for Conclusion of IFRS 6 to specify that the possibility to recognize expenditures as assets or in the profit or loss is limited to the accounting treatment.

We agree with the IASB's proposal to amend IAS 7 because this clarification improves the comparability of financial statements. Generally, the classification in the cash flow statement implies an entity's judgement which could result too much discretionary.

We disagree with the IASB's proposal to amend also the Basis for Conclusion of IFRS 6, because – in addition to re-propose the same issues discussed in the paragraph General – such amendment does not appear appropriate until a proper standard on exploration and evaluation expenditures of extractive industries is developed. Entities which apply the "full-cost method" would show in the cash flow statement large investment assets. In the other cases, entities which apply more prudent approaches would report investments at a significantly lower level. For these reasons, we believe that this proposal would weaken the comparability of financial statements.

Issue 5: IAS 18 *Revenue* – Determining whether an entity is acting as a principal or as an agent

With reference to agency relationships, paragraph 8 of IAS 18 states that revenue is generally the amount of commission, and not the gross inflows of economic benefits because it includes amounts collected on behalf of the principal. Following the suggestion of IFRIC - concerned about how to distinguish if an entity acts as a principal or as an agent - the IASB is proposing to add some examples to the Appendix of IAS 18. Such examples, as a matter of fact, introduce a principle by which an entity is acting as an agent when the significant risks and rewards associated with the sale of goods or the rendering of services are not transferred to the entity. The proposed example include some indicators such as: the absence of primary responsibility for providing the goods or services; the absence of inventory risk; no discretion in establishing prices; no customer's credit risk.

We agree with the IASB's proposal to make it clear that revenue is not always solely the amount of commission, but that it needs to be measured on a case by case basis. Moreover, we do not see in the market other significant indicators of agency relationship.

We do not agree that the "risks and rewards principle" be derived solely from an appendix that is not part of the standard and is immediately effective (see again the paragraph General). The impact of the amendment is significant because it clarifies diversity of treatments in practice and therefore we recommend to introduce the principle in the context of the standard, including a transition provision and an effective date, while keeping the examples in the appendix.

Issue 6: IAS 36 *Impairment of Assets* – unit of accounting for goodwill impairment

The IASB proposes to amend paragraph 80(b) to make it clear that the unit or group of units for goodwill allocation in IAS 36 is not larger than the operating segment as defined in paragraph 5 of IFRS 8 before the allowed aggregation of more segments (paragraph 12 of IFRS 8).

We disagree with the IASB on this issue. The issue originates from the adoption of IFRS 8 which, based on management view, allows the entity to aggregate similar segments if they are managed together. When the requirements of paragraph 12 of IFRS 8 are satisfied and the segments are actually managed together, the management will view the future economic benefits from the business combination as deriving from the segments taken as a whole. An allocation of goodwill to smaller cash generating units would be arbitrary. For this reason we prefer the allocation of goodwill to the aggregated segment, except when there are no demonstrable synergies, but in this case the aggregation would not have been permitted.

Issues 7 thru 9: IAS 38 *Intangible Assets* (various matters)

The IASB proposes to specify the valuation techniques commonly used by entities when measuring intangible assets acquired in a business combination.

We do not see any particular added value with respect to the current text. The matters for which clarifications are proposed seem to be clear per se. In our opinion, accounting principle should remain *principle based*.

Issues 10 thru 12: IAS 39 Financial Instruments: Recognition and Measurement (various matters)

As far as IAS 39 is concerned, we believe it is not appropriate at this time to formulate specific comments, given that in the perdurance of the financial turmoil several arguments are currently under discussion.

We are of the opinion, irrespective from the above, that the IAS 39 should be fully reviewed and significantly amended with the aim of:
- simplifying the requirements;
- converge to US GAAPs;
- convert the standard to a pure “principle based” one.

Yours sincerely,

Angelo Casò

(OIC Chairman)