Organismo Italiano di Contabilità – OIC (The Italian standard setter)

00187 Roma, Piazza Venezia 11

Tel. 06/69529271-2 Fax: 06/6781254

November 5, 2002

Sir David Tweedie
Chairman IASB
30 Cannon Street
London EC4M 6XH – UK

Mr. Johan van Helleman
Chairman EFRAG
Avenue des Arts 41
1040 Brussels-Belgium

Dear Sirs,

Re: Exposure Draft (ED-1): First Time Application of IFRS.

We share without reservation the need to establish *transparent migration rules* towards IFRS and, at the same time, the need to reduce the migration costs to the minimum, taking into consideration the benefits for the users, also in order to favour the widest adoption of IFRS. On the contrary, the need to ensure *comparable information over all periods presented* shall not represent the main objective for a first-time adopter, taking into consideration the excessive efforts implied by the adoption of this "retrospective" principle.

The migration towards a new set of principles implies, by necessity, a certain level of discontinuity with respect to the previous set of principles, particularly when significant exemptions are permitted. Therefore, we believe that the rules to be observed by a first-time adopter shall concern the future more than the past, and shall create the best bases for the beginning of the new historical series of "IFRS compliant" data In any case, markets and, above all, financial analysts, well recognise both the previous sets of principles and the new set of principles.

A second crucial aspect should be stressed out. The ED 1, in relation to many aspects, seems, first of all, to prescribe the rules for the case of an individual and voluntary migration towards IFRS (type A).Less consideration seems to be given to the case of a mass, simultaneous, mandatory and "en bloc" migration towards IFRS (type B) [(1)].

Instead, a type B) migration shall be taken into more consideration and favoured in order to accelerate, also in the future, the widest acceptance and observance of IFRS. A greater flexibility should be introduced in order to reduce to the minimum the burden of type B) migration , also because in this case the first-time adopters do not have a choice as to the convenience to adopt IFRS.

In this context, we believe that it is appropriate to introduce a general rule of exemption for "undue cost or effort" to be applied with regard to all requirements stated in paragraph 11 and to create further exemptions in paragraph 14.

[(1)] This is the situation related to the migration set out in the European Union's Proposal n. 1606/2002. It will concern, as minimum requirement , the consolidated accounts of the *"listed"* companies in the European Union's financial market, starting from the period beginning on 1st January 2005, or later. Furthermore, the European Union's States may require or permit the migration also with reference to:

a) the individual accounts of the entities subject to the minimum requirement;
b) the individual and consolidated accounts of the other entities.

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In the appendix, we provide the specific answers to the required questions. Please, feel free to contact me, should you need any clarification on the contents of this letter and the appendix.

Yours sincerely.

Prof. Angelo Provasoli
OIC Chairman

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APPENDIX

Answers and comments about the Exposure Draft (ED-1) - First time Application of IFRS

Question 1

The proposed IFRS would apply when an entity first adopts International Financial Reporting Standards (IFRSs) as its new basis of accounting, by an explicit and unreserved statement of compliance with all IFRSs (paragraphs 1-5 and paragraphs BC4-BC10 of the Basis for Conclusions).

Is this and appropriate description of the circumstances when this proposed IFRS should apply? If not, what changes would you suggest, and why?

Answers

We agree with the above circumstances and we suggest the following minor amendments:

Paragraph 1(b) – the *Interim Financial Reporting* shall be IFRS compliant for the periods subsequent to the first reporting date. In relation to this, if the first reporting date is 31 December 2005, this requirement regards the Interim Financial Reporting referred to the subsequent dates. Even though the possibility to provide "IFRS compliant" Interim Financial Reporting during 2005, the above deferral to the subsequent year avoids undue efforts and excessive costs resulting from early adoption of reporting requirements. This represents, among the other things, the established principle used until now by the Italian authorities in relation to Interim Financial Reporting.

Paragraph 2(b) – omit the reference to "without making them available to entity's owners", since there may be cases where financial statements have been prepared in accordance with the IFRS for owners' information needs (for instance, a foreign parent company) but not published; the most important issue to classify an entity as a "first-time adopter of IFRS" is only the widely distribution or the general availability of the financial statements.

Paragraph 3(c) – omit the reference to the Auditor Reports' qualifications since it is included in the general principle of "non compliance" with IFRS (meaning all IFRS). If we would maintain it, it is necessary to specify that the qualifications relate to "non compliance" with IFRS and not to other reasons. Furthermore, , we would suggest to clarify which kind of qualified opinion –adverse or disclaimer – has been expressed.

Finally, it should be clarified that it is not possible to use twice the exemptions provided for by the document "First time application".

Paragraph 5 – We believe paragraph 5 should be eliminated either because the subsidiaries' financial statements prepared for the parent's consolidation purposes are not publicly distributed., these financial statements are often adjusted by the parent company and are , sometimes, prepared applying a materiality concept established with regard to consolidation purpose (point a); either because it is not easy to understand why the decision as to whether financial statements are IFRS compliant should be to remitted to the minority interest. Additionally, the mechanism in order to obtain such a consensus would imply difficulties and expenses (in Italy a specific shareholders meeting would be needed).

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Finally, the users of the financial statements would not be informed of important issues, especially with regard to the reconciliation between local and international GAAP.
On this specific matter, our remarks are not consistent with the ones released by EFRAG.

Question 2

The proposed IFRS proposes a requirement that an entity shall prepare its opening IFRS balance sheet using accounting policies that comply with each IFRS effective at the reporting date for its first IFRS financial statements. Paragraphs 13-24 propose limited exemptions from this requirement.

Are all of these exemptions appropriate? Should the Board amend any of these exemptions or create any further exemptions (paragraphs BC11-BC89)? If so, why?

Answers

Paragraph 13 – We agree with the EFRAG's answer.

Paragraph 17 – The reference to the revalued items should only be allowed only if such amount has been determined according to local regulations in force

Paragraph 23 – If it is not possible to determine the CTA correctly, it would seem more appropriate to fix such value at zero and calculate the CTA prospectively (as suggested in 1995 with the introduction of IAS 21). This because it seems to be more transparent and better responding to the comparability principle to adopt a starting point *ex novo* rather than having heterogeneous balances arising from different accounting standards.

Other comments

Treatment of opening balances in accordance with new accounting standards

Paragraph 6 of ED 1 considers the beginning of the most remote comparative period presented as the transition date towards the new standards. The subsequent point 7 requires the enterprise to use the same accounting standards for all periods presented for comparative purposes and that these standards comply with those effective at the reporting date (i.e. the end of the reference period of the financial statements) relating to the first financial statements prepared in accordance with IFRS.

We agree with the choice made if it is meant that standards *"effective"* at the *"reporting date"* are IFRS in force before the reporting date. Therefore, a *"first-time adopter"* shall apply the new standards issued during 2005 only from the beginning of the financial year 2006 and thus should not modify, during the financial year, accounting entries already made on the basis of standards in force at the beginning of 2005. On the other hand, we believe that the application of a new standard to financial statements of previous years presented for comparative purposes will be possible, without any particular problem, because it will only require "out of books" calculations.

Consequently, we expect that also in the future new accounting standards or amendments to existing standards will have an effective date starting from the financial statements subsequent to those current at the date of the issuance of the new standard or amendment.

"Undue cost or effort" and exemptions

Given the difficulty of a perfect retrospective application of the standards issued by the IASB – above all in consideration of the excessive burden which in some cases the reconstruction of historical data could imply; of the need to develop data-bases responsive to the new measurement criteria provided by IFRS; of the need to apply classifications introduced at a subsequent date to past periods, etc. – we suggest that the exemption "undue cost or effort" shall apply in all the requirements indicated in paragraph 11, applying an approach similar to that adopted by SIC no. 8. In fact, we cannot exclude that there may be further practical problems in addition to those dealt with in the list of "exemptions", which can in no way be recognized in advance to be complete and exhaustive. In order to minimize the risk of subjective interpretations and of abuses by adopters in the application of the "undue cost or effort" principle, we suggest that the definition contained in BC 13 be inserted in the text.

Besides, we request that the retrospective application of the criterion for the recognition and derecognition of financial instruments provided by ED IAS 39, should it be approved, should be included in the list of exemptions. We consider this request to be in line with the position of EFRAG described in point 6 of answer 4.

We believe that the standard should clearly indicate that in any case the directors have the responsibility to disclose the terms and conditions of the comparability between the latest financial statements and previous period balances presented for comparative purposes.

Question 3

Paragraphs 28-37 of the proposed IFRS deal with presentation and disclosure requirements (see also paragraphs BC90-BC97). Are all of these disclosures appropriate? Should the Board require any further disclosures or eliminate or amend any of the proposed disclosure requirements? If so, why?

Answer

We suggest that the need to explain the adjustments to cash flow statements be eliminated because of excessive efforts and too many details and because this information can be derived from the other disclosures previously required.

We suggest that the main differences regarding segment reporting be disclosed.

Question 4 (Other comments)

Do you have any other comments on the Exposure Draft?

Answers

The Board has decided to maintain the distinction between paragraphs in bold (the basic principles) and those in normal type (detailed explanations). In order to respect this approach, we think that paragraph 1, the first sentence of paragraph 2 and the first sentence of paragraph 10 should be set in bold because they deal with the basic principles.

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Finally, we express our opinion about some aspects of the answer to this question given by EFRAG.

We agree with the EFRAG's comment n.1

We agree with the EFRAG's comment n.2 because it is consistent with what expressed in our answer to the question n. 1, paragraph 2(b).

We do not agree with EFRAG's comment n. 4 because it seems to be not appropriate in the context in which it is included.

We agree with the EFRAG's comment n.5.With regard to the EFRAG comment n.6, please refer to the answer to question number 2.

We agree with EFRAG's comment n.7, provided that the wording in paragraph 5 is not modified.

The EFRAG's comment n.8 is already included in the suggestion about the extension of the "undue cost or effort" exemption.