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**Re: Draft endorsement advice on the IFRS 11 Joint Arrangements**

Dear Francoise,

OIC is pleased to have the opportunity to provide its comments on your draft endorsement advice on the *IFRS 11 Joint Arrangements*.

Consolidated Financial Statements (hereinafter also CFS)

IFRS 11 replaces an option in the IAS 31 with a principle that distinguishes joint operations from joint ventures. In accordance with the principle in IFRS 11 joint ventures will be accounted for equity method, while in joint operations will be recognized assets and liabilities of the joint operation that in substance represent rights and obligations of the reporting entity.

On one hand OIC, as well as EFRAG, has always expressed concerns on the elimination of the proportional consolidation model for joint ventures, as this model probably better represents the business on which entity has joint control and helps users to distinguish from the investments in associated. On the other hand, we recognize that equity method, if it is not the best outcome, can give useful information to users, and the principle in IFRS 11 can help them to distinguish different kind of investments in which the entity has a different level of rights and obligations. Therefore, on balance, OIC do not object to the conclusions reached by the majority of EFRAG TEG members in the DEA of IFRS 11.

Separate Financial Statements (hereinafter also SFS)

IAS 27 notably requires entities in the separate financial statements to account for at cost or fair value all the investments in subsidiaries, joint controls over investees and associates. In all circumstances in which a business is controlled, joint controlled or subject to significant influence, and is structured through a separate legal entity, IAS 27 would require to account for at cost or fair value. However IFRS 11 introduced an exception to this principle, requiring entities that have joint control over a joint operation to replicate the same accounting principle used in the consolidated financial statements also in the separate financial statements, regardless of whether the joint operation is structured through a separate vehicle or not. OIC is not convinced that this accounting model gives useful information to the users of the separate financial statements. Moreover it can be noted that such a specific exception to the IAS 27 principle for joint operations was added at a late stage in the due process, giving constituents little or no possibility to react in the adequate manner.

More in details, our main concerns on the application of this standard to the separate financial statements are as follows:

- <u>Inconsistency with IAS 27</u>. While interests in subsidiaries under IAS 27 are accounted for at cost or fair value in all circumstances, IFRS 11 introduces a distinction between joint operations and joint ventures. In the first case the SFS gives prominence to the fact that the entity has rights to the assets and obligations for the liabilities of the jointly controlled entity. In the second case, the SFS gives prominence to the nature of the equity investment. It is unclear the reason why the same fact pattern leads to opposite accounting requirements depending on the level of control exercised. The outcome seems counter-intuitive, considering that the stronger the control, the weaker the representation (i.e. investment rather than underlying assets and liabilities);
- <u>Duplication of information between CFS and SFS</u>. The information provided in the SFS would not be useful to users as it will be a duplication of the information already reported in the consolidated financial statements. Indeed it is noted that separate financial statements offers a set of information which integrates the financial information provided by consolidated financial statements and this is stated by the IASB in the BC 10 of the IFRS 10. If this is the case, it is not clear the reason for making exceptions in the case of joint operations;
- <u>Measurement issue</u>. It is not clear how to deal with those cases where joint operations structured through separate legal entities are themselves parent companies. Should joint operators recognize their interests in subsidiaries on which they have rights to, as a one line investments (at cost or fair value), or should they recognize all assets and liabilities of such subsidiaries? In the latter case the departure of SFS from its original nature would become more and more evident.

All these issues cannot be labeled as "Italian issues". It is a fact that the application of the IFRS to the separate financial statements is allowed by the EU Regulation 1606/2002. Therefore all the issues related to the application of IFRS to the separate financial statements are "European issues" and not only issues for those single countries that at present apply IFRS to the separate financial statements.

For all the reasons explained in this letter, OIC, while it is not in the position to give a positive advice, would be keen to help IASB, EFRAG or any relevant European Institution to find a solution to this issue related to the application of IFRS 11 to Separate Financial Statements.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)