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IFRS Interpretations Committee
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Re: IFRS Interpretations Committee tentative agenda decisions published in the June 2019 IFRIC Update

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee (“the Committee”) tentative agenda decisions included in the June 2019 IFRIC Update.

Our comments refer to the following issues:

- *IFRS 16 Lease Term and Useful Life of Leasehold Improvements*
- *IAS 1 Presentation of Liabilities or Assets Related to Uncertain Tax Treatments*
- *IAS 41 Subsequent Expenditure on Biological Assets*

Lease Term and Useful Life of Leasehold Improvements

The Committee concluded in its Tentative Agenda Decision that principles and requirements in IFRS 16 provide an adequate basis for an entity to determine the lease term of cancellable and renewable leases.

We disagree with the conclusion of the agenda decision. We believe that for this issue a standard setting activity is needed for the following reasons.

We are convinced that there are not enough element in the IFRS 16 to conclude on the submission with an agenda decision. The concept of penalty is not defined in the IFRS 16 so we do not think that there can be only one possible interpretation of it.

Moreover, we note that in determining the lease term the IFRS 16 requires two different assessments:

- A first assessment in paragraph B34 to determine the enforceable period; and
- A second assessment in paragraph B37 to evaluate whether the lessee is reasonable certain to exercise an option to extend or not exercise an option to terminate the lease.

In our view, considering the term penalty of paragraph B34 in a broader sense including, for example, the cost of abandoning or dismantling the non-removable leasehold improvements, seems to assimilate the assessment in paragraph B34 to the assessment required by paragraph B37. This could contradict the current thought process implicit in the Standard.

In addition, we note that such an interpretation of the term penalty would require the lessee to make an assessment that is almost impossible and easily challenged. Indeed, following the Committee's interpretation of the term "penalty" in determining the enforceable period of the lease term according to paragraph B34 a lessee will be required to:

- assess the possible lessor's economic disincentives;
- update yearly this assessment to reflect any changes in the economic disincentives of the lessor.

We find this assessment very costly complex and arbitrary, because it requires the lessee to guess the intention of the lessor regarding any kind of advantages and disadvantages that he can obtain by exercising or not the contractual options.

Finally, we believe that, in any case, the concept of penalty equally applies to all kinds of lease contracts that are within the scope of paragraph 18 of IFRS 16.

In summary we assume that in the light of the number of comments some more thoughts on the issue are needed and a clarification taking the form of an amendment to the standard is highly recommended.

Presentation of Liabilities or Assets Related to Uncertain Tax Treatments

The Committee concluded in its Tentative Agenda Decision that the requirements in IFRS Standards provide an adequate basis for an entity to determine the presentation of uncertain tax liabilities and assets.

We have some concern about this conclusion. Indeed, we have been informed that there is mixed practice on this issue and that many entities have usually presented liabilities related to uncertain

tax treatments as provisions. In their view, paragraph 5 of IAS 37 says that liabilities related to uncertain tax positions are provisions that are recognized and measured according to IAS 12. IAS 12 does not address the presentation of these liabilities and thus they may be classified as provisions

These entities also note that IFRIC 23 does not address the presentation of uncertain tax liabilities and believe that it is more relevant to separate the liabilities related to uncertain tax positions from other tax liabilities that are more certain.

Consequently, we believe that the Committee should clarify this issue with an amendment.

Subsequent Expenditure on Biological Assets

We agree with the Committee's decision of not adding this issue to its standard-setting agenda, because we agree that a standard-setting activity on this matter would not result in an improvement to financial reporting that would be sufficient to outweigh the costs.

However, we believe that, from a theoretical point of view, the concept of capitalisation is more closely related to the cost measurement model and not to the fair value one. Indeed, in our view, fair value measurement reflects current selling prices and it may not reflect incurred expenditure.

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

Yours sincerely,
Angelo Casò
(Chairman)