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International Accounting Standards Board
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3 June 2021

Re: IASB’s Request for Information on the Post Implementation Review of IFRS 10, IFRS 11 and IFRS 12

Dear Mr Hoogervorst,

We are pleased to have the opportunity to participate to the Post Implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities.

In order to reply to the IASB’s Request for Information we consulted with our stakeholders, mainly preparers and auditors.

The results of this activity highlighted that, in general, IFRS 10 and IFRS 12 are working relatively well in Italy.

In some circumstances applying IFRS 10 requires significant judgement. Whilst we think that this is unavoidable, we have been informed that the assessment of whether rights are substantive may be challenging. In particular:

- when an option may become exercisable only in the event of a deadlock (eg the holder of the option may acquire the share of all other shareholders only in the event of a deadlock). It is not clear whether, and in which cases, such options should be considered in assessing whether these rights are substantive.
- Determining whether the exercise price of an option is at a level that would result in potential voting rights that are substantive rights may be a challenge. This is because the assessment of whether an option is in or out of the money may be complex and judgemental.

We believe that some additional guidance on these topics might be useful.

On IFRS 11, our stakeholders highlighted the following issues.

Classification of joint arrangements applying “other facts and circumstances”

The application of “other facts and circumstances” is a significant issue, mainly in some sectors (like oil and gas and construction sector) where joint arrangements, structured through a separate vehicle, are frequent.

Preparers that operate in these sectors noted that applying the “other facts and circumstances” test may be very judgmental. Indeed, in some cases, the two parties of the same joint arrangement classified the same joint arrangement in different way (one party concluded that the arrangement is a joint venture and the other party concluded that it is a joint operation).

Taking into consideration the relevance of the issue we suggest to the IASB to simplify the guidance on “other fact and circumstances”.

A possible solution could be to amend the guidance on “Assessing the terms of the contractual arrangement” in order to allow the parties of a joint arrangement to classify the arrangement as a joint operation when they provide guarantees to third parties for all the liabilities of the arrangement. This amendment would simplify the application of the standard, because the parties would be able to classify the arrangement as a joint operation without consider the other facts and circumstances.

Accounting requirements for joint operations – interaction with IFRS 16 Leases

We observe that the IFRS IC addressed the interaction between IFRS 16 and IFRS 11 in March 2019. In that occasion, IFRS IC concluded that when a joint operator signs a lease contract on behalf of a joint arrangement and it has the primary responsibility for the lease liability it should recognise the entire lease liability applying paragraph 20 of IFRS 11.

In our comment letter to the tentative agenda decision, we observed that the IFRS IC did not mention paragraph B11 of IFRS 16 that states (emphasis added): *“contract to receive goods or services may be entered into by a joint arrangement, or on behalf of a joint arrangement, as defined in IFRS 11 Joint Arrangements. In this case, the joint arrangement is considered to be the customer in the contract. Accordingly, in assessing whether such a contract contains a lease, an entity shall assess whether the joint arrangement has the right to control the use of an identified asset throughout the period of use”*.

In our view, this paragraph is important because it seems to say that if a joint operator signs a lease contract on behalf of a joint arrangement, then the arrangement (and not the lead operator) is the customer of the contract. Thus, according to this paragraph, the lead operator should recognise only its share of the lease liability.

Therefore, as already did in our comment letter to IFRS IC, we suggest to reconsider this issue in order to allow the lead operator to recognise only its shares of any liabilities incurred by the joint operation.

Accounting requirements for joint operations in separate financial statements

We believe it is worth highlighting again the doubts raised in different occasions by the OIC on the accounting for an interest in a joint operation structured in a separate vehicle in the separate financial statements of the joint operator.

According to paragraph 26 of IFRS 11 interests in joint operations are accounted for in the separate financial statements of the joint operator as in its consolidated financial statements.

We are not convinced that this accounting model gives useful information to users of the separate financial statements, because the separate financial statements of the joint operator include assets, liabilities, revenues and expenses on another legal entity.

We also think that the information provided in the separate financial statements would not be useful to users as it will be a duplication of the information already reported in the consolidated financial statements. Indeed, separate financial statements offer a set of information which integrates the financial information provided by consolidated financial statements (see BC 10 of IFRS 10). If this is the case, it is not clear the reason for making exceptions in the case of joint operations structured in a separate vehicle.

We continue to believe that a joint operator should account for its interest in a joint operation structured in a separate vehicle in accordance with IAS 27, like the interests in other separate legal entities (i.e. subsidiaries, associates and joint ventures).

We believe that paragraph 26 of IFRS 11 is inconsistent with IAS 27. Indeed, the assets of a jointly controlled entity are recognised in the separate financial statements of the joint operator, while the assets of a subsidiaries are recognised as an investment in the separate financial statements of the parent. The outcome seems counter-intuitive, considering that the stronger is the control, the weaker is the representation.

Consequently, we propose again to amend IFRS 11 in order to permit a joint operator to account for its interest in a joint operation structured in a separate vehicle in accordance with IAS 27. This would avoid a duplication of information between the consolidated and separate financial statements and simplify the application of the standard in separate financial statements (this is still an application issue especially in the Oil&Gas sector).

The arguments to support the inclusion of this option are similar to the consideration made by the IASB when included the equity method in the separate financial statements. The board was in agreement with the staff proposal to re-introduce the equity method as an option, because the comparability of separate financial statements had already been compromised by the optional application of the IFRS to them and that, therefore, the inclusion of a new option would not have led to a significant reduction in comparability.

Yours sincerely,
Angelo Casò
(Chairman)