

Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

EFRAG
35 Square de Meeûs
B-1000 Brussels
BELGIUM
commentletters@efrag.org

27 November 2015

Re: EFRAG Draft comment letter on *Request for Views 2015 Agenda Consultation*

Dear Roger,

We are pleased to have the opportunity to provide our comments on your draft comment letter on IASB *Request for Views 2015 Agenda Consultation (RFV)*.

Our main findings are:

- to give highest priority in finalizing the projects included in the standard-setting level, especially the project on insurance contracts after thorough analyses are carried out;
- to improve the cooperation and synergies with National Standard Setters and other accounting bodies in order to move faster from the assessment stage of a project to a development stage, and ultimately to a standard-setting level;
- to include a project on separate financial statements on the IASB's agenda in order to clarify their role and provide a more robust basis for the preparation of separate financial statements.

Our detailed comments and responses are set out below.

The balance of the IASB's projects

Question 1

The IASB's work plan includes five main areas of technical projects:

- (a) its research programme;**
- (b) its Standards-level programme;**
- (c) the Conceptual Framework;**
- (d) the Disclosure Initiative; and**
- (e) maintenance and implementation projects.**

What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

The factors identified by the IASB to be considered in prioritising projects are all important and we agree with those listed. However, we think that other elements deserve to be taken into account in the decision regarding the IASB work plan and consequent allocation of resources. In particular, we suggest including the importance of the problem for jurisdictions, and especially for those that apply IFRSs, the lack of requirements/guidance in IFRSs and the development stage of the project in order to consider the amount of the work already done on it.

Moreover, a clear explanation of the assessments made by the IASB when it determines the priorities in its work plan would be useful to better understand its decisions.

Research projects

Question 2

The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33. Should the IASB:

- (a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.**
- (b) remove from its research programme the projects on foreign currency translation (see paragraphs 39–41) and high inflation (see paragraphs 42–43)? Why or why not?**
- (c) remove any other projects from its research programme?**

Question 3

For each project on the Research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and urgency (high/medium/low).

Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

We note that the Research programme includes projects already present in the agenda at least from the previous Agenda consultation, therefore since 2011, and these projects have

progressed slowly during these years. We welcome the increase in resources allocated to research projects in the near future, as stated in the consultation document. However, we think that National Standard Setters and other accounting bodies can make an important contribution in this area.

In order to move faster from the assessment stage of a project to a development stage, and ultimately to a standard-setting level, the IASB should improve the synergies with these bodies, considering carefully the activity already carried on by them, in terms of discussion papers developed and evidence and inputs gathered. This material could represent a useful starting point for the subsequent work of the IASB. Working together, also giving them a part of the project to be developed, would allow topics in the agenda to be dealt with in a more efficient and rapid manner.

In the research agenda, there are two projects that remain high priority for Italian stakeholders and on which the OIC has in the past issued discussion papers, in the context of the proactive projects with EFRAG and other NSSs. We refer to BCUCC and Goodwill and Impairment projects.

With regard to the BCUCC project, we note that a DP is expected to be issued in 2016. As already commented in the past, the differences in practice across jurisdictions and the lack of accounting guidance in IFRSs on this subject highlight the urgency of addressing the topic. The treatment of these operations is an important issue both for consolidated and individual accounts. In order not to postpone the issue of the DP beyond the 2016, and in the light of the above mentioned synergies, the OIC would be pleased to provide its contribution.

The Goodwill and Impairment project has been added to the research agenda following the PIR of IFRS 3, and now the IASB is assessing how to address the issues identified in the PIR. The findings of the Discussion paper on this topic issued by the EFRAG, OIC and ASBJ show that the majority of respondents supported the reintroduction of the amortisation of goodwill, but also pointed out that there were areas for improvement in impairment testing. Given the evidence already gathered, both issues should be addressed promptly by the IASB.

We think that the PIR is a useful tool for IASB to be aware both of the implementation issues of a standard and of topics that could be further investigated in order to develop a research paper. In the past we welcomed the introduction of this step in the due process. However, it is not clear why if through the PIR there is evidence of problems, this is not sufficient in some cases to begin a standard-level project instead of starting from a research project. We think that the IASB should address the issues arising from the PIR in a standard-level project.

Regarding the PIR, we support the timing indicated for conducting it, i.e. normally two years after the application. However, despite this normal due process, if an "old" standard has created many implementation issues, the IASB should assess if a PIR should be conducted.

In this regard, we observe that a PIR would need to be considered for the IFRS 5 due to many implementation issues submitted to the IFRS IC. We acknowledge that the IASB has proposed to insert a research project to address the problems within a broader approach, after having considered the feedbacks on the Agenda consultation. However, gathering all the issues through a PIR and considering to start from a standard-level project could be a faster way to address the problems.

Finally, we wish to highlight that a project on separate financial statements should be included on the IASB's agenda. In 2014 OIC jointly with EFRAG, DASB and ICAC issued a Discussion Paper on Separate Financial Statements, which pointed out the need to deal with at least two aspects:

- the definition of the objective of the separate financial statements with the development of a specific framework for these accounts;
- some implementation issues due to the use of IFRSs for the separate accounts.

From the consultation on the DP, in general, respondents agreed that it would be useful if the IASB reviewed its requirements on separate financial statements and developed a set of general principles that could be used as a basis to set requirements for them. For some respondents the IASB should undertake a project on separate financial statements to clarify their role and provide a more robust basis for the preparation of separate financial statements.

This is a topic that historically has received little attention from the IASB but considering the number of countries that apply the IFRSs also to separate financial statements, as reported in the IFRS Foundation publication regarding the profiles about the use of IFRSs in individual jurisdictions in the world, we think that this project would be useful for many countries.

Following the 2011 Agenda consultation and the survey we then carried out with our constituencies, the projects on foreign currency translation and high inflation were not considered important. Therefore, we agree with your proposed removal.

In the Appendix A we report our suggested classification and prioritisation of the IASB projects.

Major projects

Question 4

Do you have any comments on the IASB's current work plan for major projects?

Considering that the project on lease is expected to be completed in the near future, in our view, it is necessary to finalize, first of all, the project on insurance contracts supported by appropriate impact assessments. Then it is important to conclude the project on Conceptual Framework and we expect that it results in consequential amendments to other standards.

Maintenance and implementation projects

Question 5

Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs 19–23 and 50–53)?

The efforts that the IASB and the Interpretations Committee are doing to provide implementation supports are valuable. However, we would like to highlight two aspects that need to be taken into account:

- the decision to develop an amendment should be assessed carefully especially when the standard to be modified requires a broader review, to avoid many small amendments to the same standards, or when there is interaction between projects. For example, the

narrow-scope amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" for which the IASB is now proposing to postpone it indefinitely, until it has finalised its research project on the equity method;

- the activities carried out to support consistent application include the development of education guidance and, in general, of education activities. In this regard, we are concerned that too detailed guidance could depart from a principle-based approach and that new requirements could be introduced by this education material. A severe review that the material is strictly adherent to the principles in the standard is necessary.

Level of change

Question 6

Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

See answer to question 5

Any other comments

Question 7

Do you have any other comments on the IASB's work plan?

We agree with EFRAG that IASB and FASB should jointly deliberate on the subsequent interpretations/amendments to the standards on which they have converged. In any case, when the FASB decides to deal with an issue that instead the IASB does not address, it would be important that the IASB informs the IFRS adopters if it considers the guideline applicable to IFRS financial statements.

Frequency of Agenda Consultations

Question 8

Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not? If not, what interval do you suggest? Why?

We are in favour of retaining the tri-annual consultation on Agenda. We note that the real interval among launches of Agenda consultations is anyway closer to five years than to three years. In our view, the agenda consultation gives the IASB the opportunity to understand what area of financial reporting and issues the public at large consider as priority.

When a new topic, not arising from the result of the Agenda consultation, is included in the work plan, it would be useful to understand the impact of this addition on other projects, in terms of timing and resources.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò
(OIC Chairman)

EFRAG suggestion for classification and prioritisation of the IASB research projects

EFRAG classification	Project	EFRAG activities	EFRAG priority <i>High/Medium/Low/ Very Low</i>	EFRAG assessment	OIC priority <i>High/Medium/Low/ Very Low</i>	OIC assessment
<i>Changes in economic conditions or business patterns</i> <i>(emerging issues)</i>	Financial Instruments with Characteristics of Equity	Discussion Paper <i>Classification of Claims</i> (2014)	High	The matter is both important and urgent, in particular since the financial crisis new financial instruments have been developed that create new accounting difficulties, and also because a certain number of issues have been in need for an appropriate response for many years. While the topic is certainly complex, both the IASB and other bodies have performed research on the topic that can be deemed helpful in progressing the project. In line with EFRAG's recommendation this project should best inform the possible revision of equity and liability definitions/description in the Conceptual Framework.	High	We agree with EFRAG assessment
	Post-employment Benefits (including Pensions)	PAAinE ¹ Discussion Paper <i>The Financial Reporting of Pensions</i> (2008). Current project in pre-research phase.	Medium	The matter is important for those jurisdictions that have plans with hybrid characteristics, which may not have existed when IAS 19 was originally developed. The solutions developed for the Insurance Contracts project could provide a basis to develop a feasible solution.	Low	No significant implementation issues in our country for the hybrid schemes.

¹ EFRAG, German standard setter DRSC, French Standard Setter CNC (now ANC), Italian Standard Setter OIC and UK standard setter ASB (now FRC)

Appendix A

EFRAG classification	Project	EFRAG activities	EFRAG priority <i>High/Medium/Low/ Very Low</i>	EFRAG assessment	OIC priority <i>High/Medium/Low/ Very Low</i>	OIC assessment
<i>Improvements in practice</i>	Income Taxes	Discussion Paper <i>Improving the Financial Reporting of Income</i>		<p>Given the conceptual flaws in IAS 12 that EFRAG and ASB Discussion Paper have contributed to put in evidence, the standard is deemed in need for overhaul. As a result EFRAG supports a Research project on Income tax. However EFRAG has learned from its earlier consultation on the issue that IAS 12 is deemed to work in practice and that there is no urgency to supersede it.</p> <p>Consequently EFRAG recommends that the IASB undertakes a Research project that can be progressed as a long-term project.</p>	Low	We agree that IAS 12 works in practice and that there is no urgency to supersede it
	Provisions, Contingent Liabilities and Contingent Assets	Short Discussion Series <i>Levies: what would have to be changed in IFRS for a different accounting outcome?</i> (2014).	Medium	<p>Concerns around IFRIC 21 show that there is some urgency for a number of liabilities. The solution of the concerns will depend on how the changes in the Conceptual Framework on the definition of a liability are implemented.</p> <p>Consequently the scope of the revision to IAS 37 would differ significantly from the prior proposed revision to the Standard and could valuably include all non-exchange transactions with government and other public authorities.</p>	Low	IAS 37 has so far not created significant implementation issues in our country. However, we acknowledge that IAS 37 could need a revision after the finalization of the Conceptual Framework project.
	IFRS 5 – Discontinued operations		Medium	A number of issues in relation to measurement, presentation and disclosure have been raised in relation to IFRS 5. The project should consider if a comprehensive review is required to address the issues. A first step could be a PiR.	Medium	We agree with EFRAG assessment

Appendix A

EFRAG classification	Project	EFRAG activities	EFRAG priority <i>High/Medium/Low/ Very Low</i>	EFRAG assessment	OIC priority <i>High/Medium/Low/ Very Low</i>	OIC assessment
	Share-based payments			<p>IFRIC continues to receive submissions on IFRS 2, which shows that there are issues to solve. However, EFRAG thinks that the matter is not of high importance to European constituents.</p> <p>In any case, EFRAG believes that, if the IASB wants to perform any activity on the topic, the first step should be a PiR with a view to address the Standard on a comprehensive basis. Given the interrelation between the classification criteria and the equity/liability discussion, development of this project could be deferred until after the completion of the FICE project.</p>	Very low	No need for a PIR due to no significant implementation issues in our country
	Foreign Currency Translation		Very low	The project was meant to consider amending the guidance on foreign currency translation when there are significant rate fluctuations due to exceptional and temporary external shocks. This specific matter is not important to European constituents,	Very low	We agree with the removal from the IASB research agenda
	High Inflation		Very low	<p>Hyper-inflation is not a matter important to most of the European constituents although some European companies face high inflation in their activities outside Europe.</p> <p>Having said that, EFRAG believes that the IASB should after the revision of the Conceptual Framework, undertake a research project that would consider how to deal with price changes from a conceptual perspective.</p>	Very low	We agree with the removal from the IASB research agenda
<i>Elimination of</i>	Discount Rates	EFRAG is carrying	Medium	The current interest rate environment	Medium	We agree with EFRAG

Appendix A

EFRAG classification	Project	EFRAG activities	EFRAG priority <i>High/Medium/Low/ Very Low</i>	EFRAG assessment	OIC priority <i>High/Medium/Low/ Very Low</i>	OIC assessment
<i>inconsistencies across standards to deal with cross cutting issues</i>		out research on the accounting implications of negative rates and will analyse whether observed effects of low interest rates signal shortcomings in accounting requirements.		may have shown that there are issues to consider in relation to discounting. However, it is not clear if there are issues to address at Standards level.		assessment
	Equity Method	Short Discussion Series <i>The Equity Method: a measurement basis or one-line consolidation?</i> (2014).	High	The high level of submissions to the IFRIC on the application of the equity method and the divergence in practice that they reflect, together with the recently expanded use of the equity method (IFRS 11, equity method in separate financial statements) justify a high level of priority. However EFRAG does not support the current course of action adopted by the IASB in its research activities. EFRAG supports one single stream of work that would determine a principle-based approach to the resolution of the difficulties encountered in the application of the equity method, and remain consistent with the information content of the equity method.	Medium	No significant implementation issues in our country. However, in order to finalize the deferral of the Amendments to IFRS 10/IAS 28, we believe that the IASB should work on the equity method project

Appendix A

EFRAG classification	Project	EFRAG activities	EFRAG priority <i>High/Medium/Low/ Very Low</i>	EFRAG assessment	OIC priority <i>High/Medium/Low/ Very Low</i>	OIC assessment
<i>Voids in IFRS requirements and lack of guidance</i>	Pollutant Pricing Mechanisms (formerly Emission Trading Schemes)	Comment Paper on <i>Emissions Trading Schemes</i> (2012 ²).	Medium	<p>The project satisfies the criteria of importance of the matter. These schemes are growing in importance, and stricter limits may apply in future. They bring assets and liabilities with specific features that require specific requirements.</p> <p>However, European preparers have now long-established accounting policies for emission trading schemes. It is therefore questionable if the matter is urgent. In its research phase, the IASB should investigate if there is sufficient divergence and evidence of the impact to justify action.</p>	Medium	We agree with EFRAG assessment
	Business Combinations under Common Control	Discussion Paper <i>Accounting for Business Combinations Under Common Control</i> (2011), jointly with OIC.	Medium	<p>This is an important matter for jurisdictions where IFRS apply to individual accounts. Also, the issue of the accounting treatment for these transactions often applies in initial public offerings.</p> <p>Although filling the void of the current literature would be beneficial (EFRAG and the OIC have developed proactive activities on the issue), the project is rated medium, considering the relative prioritisation with other projects having more pervasive and significant impacts.</p>	High	The differences in practice across jurisdictions and the lack of accounting guidance in IFRSs on this subject highlight the urgency of addressing the topic. The treatment of these operations is an important issue both for consolidated and individual accounts.
	Disclosure Initiative – Principles of Disclosure	Discussion Paper <i>Towards a Disclosure Framework for the Notes</i> (2012) jointly	High	This is both an important and urgent matter. Complaints have been consistently raised that disclosures may be at the same time not informative enough for users and cumbersome for	High	We agree with EFRAG assessment

² Analysis started on the basis of the ANC paper *Accounting of GHG Emissions Rights Reflecting Companies' Business Model* (2012)

Appendix A

EFRAG classification	Project	EFRAG activities	EFRAG priority <i>High/Medium/Low/ Very Low</i>	EFRAG assessment	OIC priority <i>High/Medium/Low/ Very Low</i>	OIC assessment
		with ANC and FRC.		preparers. EFRAG rated this project high priority in 2011. EFRAG regrets that so far only small amendments to standards have been made whereas the main project has not yet reached standards level stage and it is even unclear if it includes a full Framework for the Notes, as confirmed by discussions with constituents.		
	Dynamic Risk Management		High	This matter is a key component to complete the Financial Instruments project and to remove the European carve-out. The objective is to provide a portfolio hedge accounting solution consistent with hedging strategies	High	We agree with EFRAG assessment
	Extractive Activities/Intangible Assets/ Research and Development (R&D)		Low	The combined project could be split in the three components.	Low	We agree with EFRAG assessment
<i>Presentation issues</i>	Primary Financial Statements (formerly Performance Reporting)	Bulletin <i>Profit or Loss versus OCI</i> (July 2015) public consultation running till 26 October 2015. Short Discussion Series <i>The Statement of Cash Flows: issues for Financial Institutions</i> (2015). Research Paper	Different views – between High and Medium	The matter is important and urgent. The proliferation of non GAAP measures shows that there is a perception that financial statements do not fully achieve the objective to report performance. Users have indicated that presentation of primary statement had been clearly indicated as a priority in the prior Agenda Consultation and remains in their view of high priority. EFRAG believes that the priority of the project depends in part on the depth of guidance on presentation that the IASB will ultimately include in the Conceptual	Medium	We agree with EFRAG that the project should be done after the finalization of the Conceptual Framework

Appendix A

EFRAG classification	Project	EFRAG activities	EFRAG priority <i>High/Medium/Low/ Very Low</i>	EFRAG assessment	OIC priority <i>High/Medium/Low/ Very Low</i>	OIC assessment
		<i>The role of the Business Model in Financial Statements (203) jointly with ANC and FRC and Bulletin The role of the Business Model in Financial Statements (2013)</i>		Framework.		
Deficiencies identified in PIRs	Goodwill and Impairment	Discussion Paper 'Should Goodwill still not be Amortised? - Accounting and Disclosure for Goodwill' by Research Group of ASBJ, EFRAG and OIC. Proactive work ongoing.	High (for impairment) Different views for amortisation	As shown by the input received from European constituents in the PiR of IFRS 3, this matter is both important and urgent. We recommend that the IASB proceed immediately to discuss the possible improvements in the impairment test for goodwill. Since more work and time may be needed on the amortisation issue, the project could be decoupled in two work streams. It should be clearly specified that the project does not intend to reconsider the initial recognition of goodwill as an asset.	High	The findings of the Discussion paper on this topic issued by the EFRAG, OIC and ASBJ show that the majority of respondents supported the reintroduction of the amortisation of goodwill, but also pointed out that there were areas for improvement in impairment testing. Given the evidence already gathered, both issues should be addressed promptly by the IASB.
	Definition of a business		Medium	EFRAG believes that the project should be in development stage given that evidence has already been obtained in the PiR.	Medium	The project is now in the IASB standard-setting agenda. There are implementation issues in our countries for some industries. Consequently, we assess the priority of this project as medium