Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830

EFRAG
Avenue des Arts 13-14
B-1210 Brussels
BELGIUM
commentletter@efrag.org

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Re: ED AMENDMENTS OF IFRS 1 e IAS 27
Cost of an investment in a subsidiary, jointly controlled entity or associate

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Dear Sirs,

We are pleased to provide you with our observations on your draft comment letter to ED amendments of IFRS 1 and IAS 27. The following are our comments:

SUMMARY

We agree with the proposed option to adopt a deemed cost to account for an investment in a subsidiary, jointly controlled entity or associate in the transition from local gaaps to IAS/IFRS compliant financial statements. As a matter of fact, in many circumstances the reconstruction of the original (historical) cost may not be feasible, particularly when in preceding years the entity entered into non-recurring transactions, such as mergers, acquisitions, etc.

The Exposure Draft permits to apply the above option to any subsidiary, jointly controlled entity or associate. This approach is consistent with the provisions of IFRS 1 applicable to other assets (e. g. intangible assets).

However, we do not share some of the proposed changes to IAS 27, as explained in questions Q3 and Q4. The distribution of profits generated prior to the acquisition of the investment is undoubtely a reduction of the investment cost and should be treated accordingly. Moreover, the proposed change does not relate to the transition to IAS/IFRS, but is of a general nature. In addition, its underlying reasons do not appear sufficiently clarified: "*…the current wording*

in IAS 27 creates a problem in some jurisdictions because it makes specific reference to retained earnings as the means of making that assessment"; furthermore, it is not apprpriate, since the IAS 27 is correctly referred to dividends exceeding post-acquisition profits.

SPECIFIC QUESTIONS

Q1 – *Do you agree with the two deemed cost options as they are described in the ED? If not, why*?

We agree with EFRAG comment. The possibility to adopt in the transition the previous local GAAPs carrying amount as deemed cost of the investments would greatly facilitate the transition process and remove one of the obstacles for new adopters to prepare their separate financial statements — at present required in many jurisdictions — and would represent a furthet incentive to a larger world-wide adoption of IAS/IFRS.

Q2 – *Do you agree with the proposal to allow the deemed cost option for investments in jv and associates? If not, why*?

We agree with EFRAG comment.

Q3 – Do you agree with the proposal to delete the definition of the cost method from IAS 27? If not, why?

1. We agree that the reconstruction of dividends received generated by pre-acquisition profits at the time of the transition to IAS/IFRS is often unfeasible. Accordingly, we believe that the adoption of a deemed cost by a first time adopter should also require an impairment test.

2. We do not agree with the proposal to change IAS 27 and IAS 18 for all recurring (not first-time) separate and individual financial statements. The treatment of any distribution of profits exceeding those generated after the acquisition as a return on investment is a generally accepted principle; accordingly, these should be accounted for as a reduction of the cost of the underlying investment. In order to change this principle, the Board should provide exhaustive clarification to explain why this amendment would provide a better quality of information. The Basis for Conclusion do not appear to clearly explain this position.

3. Furthermore, we believe that requiring an impairment test at every time dividends are distributed is excessive. Such test should be required only when
   a. the amount of distributed dividends is greater than the profits generated after the acquisition date, or
   b. the impairment indicators set forth in IAS 36 are present.

Q4 – Do you agree with the proposed requirement for an investor to recognize as income dividends received from a subsidiary, jv or associated and the consequential requirement to test the related investment for impairment? If not, why?

As explained in Q3, we do not agree.

Q5 – Do you agree with the proposed requirement that in applying paragraph 37(a) of IAS 27, a new parent should measure cost using the carrying amounts of the existing entity? If not, why?

We agree with Efrag comment. We share also the necessity of a clarification as to the circumstances where paragrapf 37(a) of IAS 27 is applicable.

Q6 – Do you agree that prospective application of the proposed amendments to IFRS 1 and IAS 27 is appropriate? If not, why?

We agree with EFRAG that the proposed amendments to IFRS 1 should be applied prospectively.

Your sincerely

Prof. Angelo Provasoli
(OIC – Chairman)