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Re: Exposure Draft Of Proposed Improvements To International Financial Reporting Standards.

Dear Sirs,

We are pleased to provide our comment on the "Exposure Draft Of Proposed Improvements To International Financial Reporting Standards".

The OIC welcomes this first annual improvement because it removes some inconsistencies in the principles, clarifies some terms, and resolves some interpretation issues raised by the IFRIC.

As some of the modifications re-affirm and clarify concepts that were already present in the standards, the OIC feels that, for some improvements, it would be better to adopt them immediately rather than defer them to 2009. This is above all because the early adoption of individual modifications (or rather, specifications) is precluded by the terms ("all or nothing") under which early adoption is permitted.

In our comments on the individual modified standards, we have highlighted those that, in our opinion, warrant immediate adoption.

IFRS 1

Question 1
Do you agree with the Board's proposed restructuring of IFRS 1? If not, why?

OIC comment
We agree with the proposed modification as this will facilitate reading of the standard and its application in practice.

IFRS 5

Question 2
Do you agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary? If not, why?

<u>OIC comment</u>
We agree with the proposed modification, which is consistent with the consolidation rules that require that the consolidated financial statement should represent the whole investment over which the entity has control and the intention to retain that control over time.

A different approach would lead to the use of proportional consolidation, which is inconsistent with the logic underlying the criteria of IAS 27 and IFRS 3.

We believe however that if the entity has reached an agreement to sell the controlling interest in a subsidiary but, after the sale, it has retained a joint interest in the former subsidiary and the entity has elected as accounting policy to consolidate its interests in a jointly controlled entity using the proportionate consolidation, then the entity shall classify as held for sale only the portion of assets and liabilities to be sold.

However, the proposed modification is an interpretation (or rather, a correct reading) of IFRS 5 and, therefore, we believe that it should not be deferred to 2009 but come into effect immediately.

IFRS 7

Question 3
The Board proposes to amend paragraph IG13 of the guidance on implementing IFRS 7 Financial Instruments: Disclosures *to resolve the potential conflict with IAS 1. Do you agree with the proposal? If not, why?*

<u>OIC comment</u>
We agree because conflicts between standards must be eliminated in order to avoid different behaviours by entities. However, here again, we believe that this is a case of a correct reading of existing standards and that, therefore, the modification should become effective immediately.

IAS 1

Question 4
Do you agree with the proposal to require an entity that cannot make an unreserved statement of compliance with IFRSs to describe how its financial statements would have been different if prepared in full compliance with IFRSs? If not, why?

Question 5
Do you agree with the proposal to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current? If not, why?

Question 6

Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current? If not, why?

<u>OIC comment</u>

The introduction of the disclosure on non-compliance with the IFRS is essential for enabling the reader to appreciate whether and to what extent the financial statements can be said to be in compliance with the IFRS. However, such understanding is devoid of meaning unless accompanied by a quantitative description of the effects, which is currently not mandatory but which the OIC believes is indispensable.

Furthermore, the OIC has serious concerns about the fact that the introduction of this disclosure may encourage entities and jurisdictions to modify, mutilate or interpret the IFRS. If so, the goal of having one single accounting language (convergence) would be seriously compromised.

We realize that at this time there are important and common situations in which this has already occurred, and here we are referring to the carve-out by the EU on IAS 39. However, the exception cannot become the rule. The OIC suggests that entities should not be allowed to adopt the planned disclosure (and the quantitative reconciliation) except in those cases of limited exceptions that can be easily identified and quantified, unless this is not feasible. Where non-compliance with the IFRS has been due to a local legal requirement, this fact should also be mentioned in order to be able to distinguish between voluntary non-compliance (which should be justified and of a truly transitory nature) and obligatory non-compliance.

The OIC agrees with the modification concerning the classification of the potential settlement of a liability by the issue of equity because the aim of the current/non-current classification is to enable users of financial statements to estimate future cash flows.

The OIC is not convinced that the modification of the examples in paras. 68 and 71 means a real change in the classification of liabilities. Even if liabilities held for trading will no longer be expressly indicated as examples of current liabilities, they must still be classified according to para. 60 of IAS 1, which requires inter alia the classification of liabilities as current where the entity “holds the liability primarily for the purpose of being traded.” Hence, the OIC believes that the proposed modification is superfluous.

IAS 8

Question 7

Do you agree with the proposal to amend paragraphs 7, 9 and 11 of IAS 8 to clarify the status of implementation guidance? If not, why?

<u>OIC comment</u>

We agree with the modification, which removes a non-correct reading of para. 7 of IAS 8. Here again, we believe that it should be adopted immediately, it being impossible to envisage that preparers can, for the next two sets of financial statements, consider as mandatory parts of the IFRS that the Board has never deemed such.

IAS 10

Question 8
Do you agree with the proposal to amend paragraph 13 of IAS 10 to clarify why a dividend declared after the reporting period does not result in the recognition of a liability at the end of the reporting period? If not, why?

<u>OIC comment</u>
We agree with the clarification, and again, we believe that the modification should be effective immediately in order to avoid preparers considering as liabilities items which the Board has never deemed such.

IAS 16

Question 9
Should the definition of recoverable amount in IAS 16 be amended to remove the perceived inconsistency with 'recoverable amount' used in other IFRSs? If not, why?

Question 10
Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?

<u>OIC comment</u>
We agree with the correction to the definitions of recoverable amount, which can avoid potential divergent applications of the same concept. Again, we recommend immediate adoption of the modification.

We also agree with the treatment of the sale of previously rented assets as the modification reflects the economic reality of an entity.

IAS 17

Question 11
Do you agree with the proposal to amend paragraphs 14 and 15 of IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17? If not, why?

Question 12
Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?

<u>OIC comment</u>
We agree with the removal of the paragraphs concerning the separate classification of the canons for leasing land and buildings because the modification makes the standard principle-based, requiring preparers to assess the economic substance of the operation.

We also agree with the modification of the accounting treatment of the potential canons of operating leases as this modification makes financial and operating leases consistent and better respects the criterion of economic competence.

IAS 18

Question 13
Do you agree with the proposed amendment to the guidance on IAS 18 to explain that the definition of the transaction costs to be applied to the accounting for financial asset origination fees are those defined in IAS 39? If not, why?

OIC comment
We agree with the modification, which eliminates the possible different allocation of costs in an identical operation.

IAS 19

Question 14(a)
Do you agree that IAS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost? If not, why?
Question 14(b)
Do you agree that the Board should delete the following sentence from paragraph 111 of IAS 19: 'An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements.'? If not, why?

Question 15
Do you agree with the proposal to amend the definition of return on plan assets in paragraph 7 of IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation? If not, why?

Question 16
Do you agree with the proposal to replace in IAS 19 the term 'fall due' with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits? If not, why?

Question 17
Should the reference in IAS 19 to recognising contingent liabilities be removed? If not, why?

OIC comment
Concerning **"**negative past service costs**"**, the OIC believes that there should not be a different accounting treatment between these and reductions in plans for future benefits (curtailment). Changes to pension plans often have an impact on both past and future services, and distinguishing between the two is sometimes very much at one's discretion. For these reasons, the OIC believes that in both cases the effects of the modifications to the plans should go wholly to profit and loss. The OIC recognizes that the issue is part of the project to modify IAS 19 and that, therefore, it is preferable that the modification of this aspect be brought forward in the improvement project in order to avoid further modifications in rapid succession.

We agree with the removal of the concept of material from the definition of curtailment in order to avoid potential conflicts with the general definition of material contained in the framework.

We agree with the exclusion from the calculation of return on plan assets of those administration costs already considered in the actuarial measurement of the future benefits in order to avoid possible duplication.

We agree with the removal of the term "fall due" and with replacing it with the concept of "employee entitlement" in order to eliminate possible misinterpretation. The modification has a purely explanatory nature for a concept that already was or should have been clear and, therefore, we believe it should become effective immediately.

We agree with the removal of the word “recognition” from IAS 19 in order to avoid any possible doubt.

IAS 20

Question 18
Do you agree with the proposal to conform terminology used by IAS 20 to the equivalent defined or more widely used terms? If not, why?

Question 19
Do you agree with the proposed amendments to IAS 20 to clarify that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39? If not, why?

<u>OIC comment</u>
We agree with the changes to the terminology used by IAS 20, which make it uniform with the terms used in other standards.

We fully agree with the removal of para. 37, which, clearly running counter to the framework and spirit of IAS 20, precluded recognition of the benefit related to the granting by a government of a loan at a zero or below-market rate of interest. This also removes the inconsistency with similar situations where such loans were granted by individuals. In order to avoid possible misunderstandings, the modification should not be limited to the removing of the paragraph, but rather a specific paragraph should be inserted that clearly indicates that loans at zero or below-market rate are to all intents and purposes government grants, and that the related benefit has the nature of imputed interest and must be measured in accordance with IAS 39.

IAS 23

Question 20
Do you agree with the proposal to amend paragraph 6 of IAS 23 to refer to the guidance in IAS 39 Financial Instruments: Recognition and Measurement relating to effective interest rate when describing the components of borrowing costs? If not, why?

<u>OIC comment</u>
We agree with the modification, which eliminates potential conflicts between standards.

IAS 27

Question 21
Do you agree with the proposal to require investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent’s separate financial statements to continue to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale)? If not, why?

<u>OIC comment</u>
We do not agree with the proposal because subsidiaries measured at fair value would continue to be measured at fair value and not, as would be logical, at the lower of financial statement value (i.e.

fair value) and fair value less cost to sell. Thus, the recommendation is to amend the paragraph by adding the following sentence: "Those investments accounted for at fair value in accordance with (b) above, when classified as held for sale, should be accounted for at the lower of their carrying amount and fair value less cost to sell."

This specific provision would enable uniformity in measurement among all assets held for sale, also in separate financial statements.

IAS 28

Question 22
Do you agree with the proposal to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

Question 23
Do you agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed? If not, why?

<u>OIC comment</u>
Restrictions on the profits or dividends of an associate are very useful information in forecasting future cash generation, also for entities measured at fair value and for which a fund has a particularly specific interest. Therefore, we agree that such disclosures should be mandatory.

The OIC also agrees with the specification that, for the purposes of the impairment test, the associate is to be considered as a single asset and, consequently, no impairment loss is to be allocated to any specific element of the associate's financial statements – therefore, not to goodwill, as an initial allocation, and not then to other assets. Thus, the restoration of the impairment loss, where permissible, is not subject to any restriction.

However, in our opinion, the situation is different for joint ventures over which the venturer has control, albeit partial, of the net assets. In this case, where the venturer has included some goodwill in its financial statements (both in the case of proportional consolidation, and also in the case with the equity method valuation), it will be necessary to prioritize the writing down of goodwill, which is not subject to restoration. The OIC invites the Board to regulate also for this situation.

IAS 29

Question 24
Do you agree with the proposal to update the description of historical cost financial statements in paragraph 6 of IAS 29 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms? If not, why?

<u>OIC comment</u>
We agree with the proposed modifications, which better reflect the current situation of mixed systems, also where the main measurement criterion is historical cost, and remove inconsistencies with other standards.

IAS 31

Question 25
Do you agree with the proposal to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

<u>OIC comment</u>
We agree with the proposal.

IAS 34

Question 26
Do you agree with the proposal to amend paragraph 11 of IAS 34 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33? If not, why?

<u>OIC comment</u>
We agree with the modification, which resolves a potential conflict of interpretation.

IAS 36

Question 27
Do you agree with the proposal to amend paragraph 134(e) of IAS 36 to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell? If not, why?

<u>OIC comment</u>
The use of discounted cash flows involves assumptions and subjective parameters, knowledge of which is useful for evaluating how the entity arrived at certain results. The information is no less useful if discounted cash flow has been used for calculating the value in use or for calculating the fair value. Therefore, we agree with the proposed modification, which seems to be a specification of the currently envisaged general disclosure (…the basis used to determine fair value less cost to sell).

IAS 38

Question 28(a)
Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?

Question 28(b)
Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?

Question 29
Do you agree with the proposal to remove the last sentence of paragraph 98 of IAS 38 regarding the amortisation method used for intangible assets? If not, why?

OIC comment

We agree with the proposed modifications, which clarify ambiguities present in the current version of IAS 38.

IAS 39

Question 30

Do you agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract? If not, why?

Question 31(a)

Do you agree with the proposal to amend IAS 39 to clarify the definitions of a financial instrument classified as held for trading? If not, why?

Question 31(b)

Do you agree with the proposal to insert in IAS 39 paragraph 50A to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category? If not, why?

Question 32

Do you agree with the proposal to amend paragraph 73 of IAS 39 to remove the references to segments and segment reporting? If not, why?

Question 33

Do you agree with the proposal to amend paragraph AG8 of IAS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 should be used, when applicable, to remeasure the financial instrument in accordance with paragraph AG8? If not, why?

Question 34

Do you agree with the proposal to amend paragraph AG30(g) of IAS 39 to clarify that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), are closely related to the host debt contract? If not, why?

OIC comment

The ED clarifies that prepayment options for which the exercise price compensates the lender for loss of interest by reducing the economic loss from reinvestment risk is closely related to the host debt contract.

We agree with the proposal, however we think that such rule should apply not only when the exercise price compensate the lender for loss of interest but also when the prepayment option compensate the holder for other losses (such as losses due to the need to close associated hedging derivatives) as long as par. AG33a) doesn't apply.

IAS 40

Question 35

The exposure draft proposes to include property under construction or development for future use as an investment property within the scope of IAS 40. Do you agree with the proposal? If not, why?

Question 36

Do you agree with the proposal to conform terminology used in paragraph 31 of IAS 40 to the terminology used in IAS 8? If not, why?

Question 37
Should paragraph 50(d) of IAS 40 be amended to clarify the accounting for investment property held under a lease? If not, why?

OIC comment
We agree on the removal of the obligation to use IAS 16 for property acquired or under development because IAS 16, although not explicitly stated, is clearly applicable solely to assets destined for productive use. The relative accounting treatments are not pertinent to investments held for capital gain or rental income.

We also agree with the other modifications, which improve the understandability of the standard.

IAS 41

Question 38
Do you agree with the proposal to replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in IAS 41 with 'costs to sell'? If not, why?

Question 39
Do you agree with the proposed amendment to IAS 41 to permit either a pre-tax or a post-tax discount rate to be used according to the valuation methodology used to determine fair value? If not, why?

Question 40
Do you agree with the proposal to remove the exclusion of 'additional biological transformation' from paragraph 21 of IAS 41? If not, why?

Question 41
Do you agree with the proposed amendments to the examples in paragraph 4 of IAS 41? If not, why?

OIC comment
We agree with the modification on sales costs, so as to have one single definition in every standard that requires that the costs involved in concluding a sale be taken into consideration.

We agree with the possibility of using net interest rates to discount cash flows as this seems to be the prevailing practice. However, we would point out that this creates an inconsistency with IAS 36, which allows the use of net rates only under certain conditions, and we would invite the Board to address this inconsistency.

We agree on including, where necessary, future transformation costs in determining fair value through discounted cash flows. Indeed, where these exist and are significant, a correct valuation must them into account. Moreover, the modification makes IAS 41 consistent with IAS 36.

Concerning the changes in the wording, being non-native English speakers, we would rather not comment.

Yours sincerely

Prof. Angelo Provasoli
(OIC – Chairman)