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Mr Robert Garnett
Chairman
International Financial Reporting Interpretations Committee
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Rome, June 23rd 2009

Re: Comments on IFRIC *Tentative agenda decisions*

Dear Mr Garnett,

The Italian Standard Setter (OIC) is pleased to respond to the IFRIC's publication in the May 2009 *IFRIC Update* of the tentative agenda decisions not to take onto the IFRIC's agenda a request for Interpretation of :

- IAS 39 *Financial instruments: Recognition and Measurement* – Meaning of "*significant or prolonged*";
- IAS 28 *Investments in Associates* – Impairment of investments in associates.

IAS 39 *Financial instruments: Recognition and Measurement* – Meaning of "*significant or prolonged*"

The issue of the meaning and interpretation of the terms "*significant or prolonged*" used in para 61 of IAS 39 in the impairment of available-for-sale equity securities is very broad and leads to a variety of applications in accounting practices. In this regard, we note that IFRIC has decided not to issue interpretations. However, through the IFRIC Update, it has provided some examples that reply to only some of the queries raised. We believe that the manner and timing with which IFRIC has addressed this issue is inappropriate. IFRIC provides examples that generate the same effects as an interpretation while concluding that it is not appropriate to publish an interpretation document as a solution to the issue in question. Moreover, an IFRIC

Update would not appear to be the ideal instrument for providing an explanation on such a sensitive issue.

In our opinion, without a thorough analysis of the accounting practices used by entities, it is difficult to ascertain that the examples proposed could clearly constitute the only interpretational solution applied, given the fact the entities' behaviours have become very diversified, especially in this year of crisis. An interpretation process on this issue would definitely require further levels of analysis than a mere listing of examples. Indeed, in developing the examples, IFRIC does not appear to have taken into consideration the various contexts in which these rules are applied. We believe that the conclusions from some of the examples proposed by IFRIC could be different if applied in contexts where financial markets are efficient rather than inefficient.

In conclusion, we believe that in view of the uncertainties surrounding these issues and given the rapid evolution of principles concerning financial instruments, it is certainly possible that the issuers may prepare the future financial reports in ways consistent with the financial statements of 31/12/2008. Thus, it would seem to be a priority for the IASB to address these issues as part of its project to review IAS 39. Consequently, in deeming useful the forwarding of the issue to the IASB, we believe, on the other hand, that IFRIC should review its indications given in the Update.

IAS 28 *Investments in Associates* – Impairment of investments in associates

We believe that the issue of the impairment test for investments in associates in the consolidated financial statements and in the separated financial statements of the parent is closely linked with that of the impairment test for investments in subsidiaries. The question here concerns the different functions of the consolidated and separate accounts, and is equally related to both investments in subsidiaries and investments in associates.

Furthermore, we believe that the question of applying the impairment test to investments in subsidiaries in the separate financial statements of the parent is of particular importance and that it gives rises to a variety of accounting practices in its application, given the lack of specific guidance in international accounting principles as to how to conduct the impairment test. For these reasons, we welcome IFRIC's desire to clarify these aspects and agree with IFRIC's decision to submit the issue to the attention of the board of the IASB.

We would like to take this opportunity to contribute to the analysis conducted by IFRIC and that underway at the IASB. We do not agree with the Staff position that the impairment test on investments in associates and in subsidiaries should be in accordance with the provisions of IAS 36 in the consolidated accounts but with those of IAS 39 in the separate accounts. The separate financial statements of the parent do not serve merely an information function and issues such as dividend distribution and capital requirements are linked to them. Furthermore, the use of two different impairment models for the consolidated and separate financial statements could give rise to different reductions in value for the same amounts, thereby generating unjustified inconsistencies between the two sets of accounts. On the basis of IAS 39, impairment on equity instruments is fair-value based, while under IAS 36 the reduction in value of an assets or a CGU is normally based on a verification of recoverability with respect to value in use. Hence, an entity could record an impairment in the separate financial statements by following IAS 39 but not in the consolidated financial statements as the value in use could exceed the fair value. One could consider, for example, the possible effects in terms of limiting dividend distributions for losses that the consolidated financial statements (which usually anticipate them) have not evidenced. In addressing specific issues pertaining to separate financial statements, it may be useful to start from the experiences of those countries, such as Italy, where these financial statements have already been prepared in accordance with the IFRSs for some time, and which have therefore already tested the organizational limits of these principles.

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

Yours sincerely,

Angelo Casò
(Chairman)