

**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

Mr. Michael Kraehnke  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
mkraehnke@iasb.org

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**Re: *Exposure Draft Post-implementation Revisions to IFRIC Interpretations - Proposed Amendments to IFRIC 9 and IFRIC 16***

Dear Sir

We are pleased to have the opportunity to express our comments on Exposure Draft *Post-implementation Revisions to IFRIC Interpretations - Proposed Amendments to IFRIC 9 and IFRIC 16*.

We welcome the IASB's proposal to clarify the scope exemptions in the IFRIC 9 consequent to the new definition of business combination in the IFRS 3, and the proposed amendment to the IFRIC 16.

However, we have some comments, mainly referred to the IFRIC 9, follows:

**Proposed amendment to IFRIC 9 *Reassessment of embedded Derivatives***

**Question 1 - Amendment arising from IFRS 3 (as revised in 2008)**

*Do you agree with the proposal? If not, why?*

The IASB proposes to make it clear that IFRIC 9 does not apply to embedded derivatives in contracts acquired in a business combination, a combination of entities under common control (hereinafter "BCUCC") or the formation of joint ventures.

We agree with the proposal which allows that the scope of IFRIC 9 remains the same as it was before the new definition of a business combination in the revised IFRS 3 *Business Combinations*, providing for a re-assessment of the embedded derivatives in contracts acquired in combination of entities or business entities under common control and in the formation of joint ventures.

However, we have some general comments about the scope exemption regarding the business combinations.

BCUCC involving entities of the reporting entity's Group do not affect the consolidated financial statement, and therefore should not justify a reassessment of embedded derivatives, as at Group level no change of control over the underlying assets.

In the individual financial statement of the acquirer, the hybrid financial instrument was recognized for the first time when the BCUCC was completed, therefore the subsidiary should reassess the embedded derivative.

The same issue arises when the combination occurs with an entity out of the reporting entity's group but part of the group of the ultimate parent. In such case the ultimate parent maintains the control both before and after the combination, but the reporting entity's group acquire the hybrid instrument for the first time.

In the consolidated financial statement should be possible to reassess an embedded derivative even if nothing has changed, and in the individual financial statement the reassessment would be justified by the initial recognition of the asset.

We understand that the purpose of the amendment was to re-establish a status quo that was modified by the IFRS 3, but we believe that the accounting treatment of the BCUCC, especially as to the impact on individual financial statements, presents some critical aspects other than the assessment about the separation of an embedded derivative, that should be deepened in the short term.

We strongly support the project on "Common control transactions", and we would gladly contribute to the development of such project. For those reasons we are starting a PAAinE project with the aim of increasing the international debate about some relevant aspects of the accounting treatment for BCUCC, and contributing to the IASB project.

Other issues arise by the relationship between the individual financial statement of the subsidiary and the consolidated financial statement of the parent, even when the business combination is not between entities under common control.

We understand that the consolidated financial statement of the acquirer should reassess the hybrid financial instrument acquired in a business combination, but we are not convinced that the same should happen in the individual financial statement of the entity being acquired. For that entity there is no change, other than a change in the shareholders

The OIC appreciates the IASB effort about the consolidation project, but it would wish that the IASB efforts be addressed also to a specific standard regarding the separate financial statement; it should be focused to the relations between separate and consolidated financial statement of the parent but also on the connection between separate financial statement of subsidiary and consolidated financial statement of ultimate parent.

The reasons for this stand in the fact that the scope of these financial statements is different: the consolidated has mainly a informative purpose while the individual financial statement has a legal "organizing" purpose as, for example, distribution of dividends or equity reserves or guarantee for lenders.

## **Question 2 – Effective date**

*Do you agree that this amendment should apply for annual periods beginning on or after 1 July 2009 with prospective application? If not, why?*

The exposure draft proposes that the amendments should be applied prospectively for annual periods beginning on or after 1 July 2009 and, if IFRS 3 (revised 2008) is applied for an earlier period, the entity is required to disclose that fact and apply the amendment to IFRIC 9.

We agree that the amendment should be applied consistently with the effective date of IFRS 3. Furthermore, we concur that the entity is required to apply such amendment if it applies IFRS 3 (revised 2008) and to disclose that fact.

**Proposed amendment to IFRIC 16 *Hedges of a Net Investment in a Foreign Operation***

**Question 1 – Removal of the restriction on the entity that can hold hedging instruments**

*Do you agree with the proposal? If not, why?*

The Board proposes to allow that hedging instruments can be held also by the foreign operation that itself is being hedged, removing the actual restriction.

We support the amendment to IFRIC 16, but we would appreciate if IASB would include an example in the interpretation or in the basis for conclusion illustrating the cases in which without hedge accounting, part of the foreign exchange difference arising from the hedging instrument would be included in consolidated profit or loss.

**Question 2 – Effective date**

*Do you agree that this amendment should apply for annual periods beginning on or after 1 October 2008 with prospective application? If not, why?*

Generally, we do not support backdating the effective date of standards. However, in particular cases like this, we agree with the ED proposal since the amendment permits to rectify a previous inappropriate treatment.

Furthermore, we think that for a right implementation of this amendment, it should provide transitional provisions that permit the entities to be exempted from having documentation in place until the date of issue.

Yours sincerely,

Angelo Casò  
(OIC Chairman)