

**Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)**

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Re: Comments on Discussion Draft – *The valuation of Customer-Related Assets*

Dear Sirs/Madams

The Organismo Italiano di Contabilità (OIC, Italian Accounting Standard Setter) is glad to take part in the consultation of the Discussion Draft issued by the Appraisal Practices Board (APB) on the subject of the valuation of Customer Related Assets (CRA).

The document, the first in a series, is rich in technical content intended to provide the best practices for valuation for the purposes of financial reporting. The document starts from those cases in which the appraiser has to estimate the fair value of CRA: the typical example is a business combination, where it is necessary to allocate, between the different possible assets and liabilities, the difference arising between the amount paid and the company's accounting value. It is directed both the companies that adopt the US-GAAP system and the companies that adopt the IAS-IFRS system.

The examination of the Discussion Draft was carried out focusing on the accounting matters and in collaboration with the OIV (Organismo Italiano di Valutazione), which will send its comments on the valuation matters.

It is well known that the IAS-IFRS, being principles based, leave sometimes preparers a room for interpretation and judgment in the application of the accounting standards. To fill these gaps, sometimes a wholly valuation approach is required (for example, which model to use for estimating fair value), at other times a wholly accounting approach is required (for instance, whether and how to classify an item for the financial reporting), and at other times a combination of both is required. Therefore, it is somehow inevitable that documents of this type, whose aim is to provide the best practices in valuation, may encroach the accounting standard setter's competence, assuming also the characteristics of an accounting interpretation.

In this regard, the OIC notes that on line 304 of the document there is a question (see below) on the unit of account which seems of an accounting nature:

Line 304: "Are there circumstances where the customer contracts and related renewals should be recognized and measured as two separate assets?".

In fact, any position that the APB could decide to take on the subject, after having collected and examined the responses received in this consultation, there would be the risk to give an interpretation of an accounting nature potentially not aligned with what is established, in general terms, in the corpus of IAS-IFRS accounting standards. In fact, these standards do not provide a specific provision for those cases where, under certain circumstances, the customer contracts and related renewals must be recognized and measured as two distinct and separate assets.

In accordance with the IASC-Foundation rules governance's the "right" answer at the above question should be provided by the Interpretations Committee (IFRS IC).

For all these reasons, in order not to create confusion between the role of the accounting standard setters and role of appraisal practice standard setters, inducing therefore preparers to rely on these documents, wrongly perceived as interpretative rather than best practices on valuations, it would seem appropriate to promote an earlier and more effective coordination and fuller exchange of information with accounting standard setters (i.e. IASB).

The above brief observations are intended to draw the attention on the opportunity, in the context of the international valuation standard setting process, to increase the coordination among accounting and valuation standard setters and to verify that potential overlapping areas between the two sets of standards are promptly identified and clarified before the issuance of a document for discussion.

Such a cooperation would also contribute to avoid the risk that accounting rules, potentially significant, may be issued – even if in the form of valuation best practices – without following the defined due process.

Should you need any further information please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)