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IFRS Interpretations Committee
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24 July 2017

Re: IFRS Interpretations Committee tentative agenda decisions published in the June 2017 IFRIC Update

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ('IFRS IC') tentative agenda decisions included in the June 2017 IFRIC Update.

IAS 28—Acquisition of an associate or joint venture from an entity under common control

We think that this issue cannot be solved with non-authoritative guidance, because there is divergence in practice on how an entity should account for the acquisition of an interest in an associate or joint venture from an entity under common control. We think that these transactions are common in practice and may have a significant impact on the acquiring entity.

We strongly disagree with the IFRS IC conclusion that:
"*the requirements in IFRS Standards provide an adequate basis for an entity to account for the acquisition of an interest in an associate or joint venture from an entity under common control*."
We note that this conclusion is inconsistent with the IFRS IC Agenda Decision published in May 2013, which states that:
"…*The Interpretations Committee was specifically concerned that this lack of clarity has led to diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control.*
The Interpretations Committee noted that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of broader projects on accounting for business combinations under common control and the equity method of accounting…"

We also think that the existing divergence in practice is confirmed by the IFRS accounting manuals of some accounting firms. According with these manuals the following views can be considered:

- View 1: There is no scope exemption in IAS 28 for such transactions; therefore, the normal measurement rules are applicable
- View 2: An entity may apply the common control scope exclusion in IFRS 3 by analogy to the accounting for common control transactions in separate financial statements. … In our view, the common control exemption in accounting for business combinations should also apply to the transfer of investments in associates and joint ventures between investors under common control. Although IAS 28 does not include an explicit exemption for common control transactions, equity accounting follows the methodology of acquisition accounting. Therefore, we believe that it is appropriate to extend the application of the common control exemption to those transfers.
- View 3: IAS 28 is not clear. Two possible approaches:

    - Acquisition accounting: the difference between the fair value of the underlying assets and the consideration given is goodwill or a gain
    - Pooling of interests: the scope exemption for BCUCC extends to transfers of associates and JVs within an existing group

We note that the tentative agenda decision states that:
"The Committee observed that in accounting for the acquisition of the interest, the entity would assess whether the transaction includes a transaction with owners in their capacity as owners—if so, the entity determines the cost of the investment taking into account that transaction with owners."
We think that this statement may have significant unintended consequences because it might be applied by analogy to all common control transactions that are not business combinations under common control, transfer of non-financial assets (eg property plant and equipment, inventories, investment properties), transfer of financial assets, and, with reference to Separate Financial Statements, to the transfer of investments in subsidiaries. These transactions are very common in practice and some may interpret this statement as requiring to assess whether any common control transactions includes a transaction with owners in their capacity as owners (ie whether it includes a distribution or a contribution). We also question how an entity should assess whether the transaction includes a transaction with owners in their capacity as owners, given that no guidance is provided in IFRS.

Consequently, we recommend the IFRS IC to address the accounting for the acquisition of an interest in an associate or joint venture from an entity under common control issuing authoritative guidance (ie a Standard, an Interpretation or an Amendment). In doing this, we recommend to:
- carefully consider the potential consequences (especially in separate financial statements) on the accounting for other common control transactions that are not business combinations under common control;
- explain how an entity should assess whether the transaction includes a transaction with owners in their capacity as owners.

IFRS 3—Acquisition of a group of assets that does not constitute a business

We note that the tentative agenda decision states that:
"*The Committee concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business results in one of the two approaches outlined in this agenda decision. The Committee observed that an entity applies its reading of the requirements consistently to all such acquisitions … The Committee has*

not obtained evidence that the outcomes of applying the two approaches outlined in this agenda decision would be expected to have a material effect on the amounts that entities report"

We do not support these conclusions. We think that the IFRS IC should clarify how an entity should apply the requirements in paragraph 2(b), because in an acquisition of a group of assets the transaction price may be different to the sum of the individual fair values of the acquired assets. This may happen, for example, because the seller in order to conclude an important transaction that involves many assets may be willing to grant a discount (that may be significant) that it would not grant if it sold only a single asset. In our view, if the discount is significant, the outcomes of the two approaches described in the tentative agenda decision may have a material effect on the financial statements of the buyer.

IAS 37—Costs considered in assessing whether a contract is onerous

We note that the tentative agenda decision states that:

"The Committee discussed two possible ways of applying the requirements in paragraph 68 of IAS 37 relating to the unavoidable costs of fulfilling the contract:

a. unavoidable costs are the costs that an entity cannot avoid because it has the contract (for example, an entity would include an allocation of overhead costs if those costs are incurred for activities required to complete the contract).

b. unavoidable costs are the costs that an entity would not incur if it did not have the contract (often referred to as 'incremental costs')."

We think that the IFRS IC should clarify the differences between the two possible ways of reading "unavoidable costs", for example specifying that an entity would not generally consider depreciation as an unavoidable cost if it applies the "incremental cost" approach (unless the entity has purchased a particular item of plant and equipment to fulfil the contract).

We also think that the IFRS IC should recommend the IASB to clarify the meaning of "unavoidable costs" in IAS 37, because the outcomes of the two approaches outlined in the tentative agenda decision may have a material effect on the entity financial statements. This should reduce the risks of difference in practice.

IAS 38—Goods acquired for promotional activities

We agree with the IFRS IC conclusions reported in this tentative agenda decision; however, we suggest clarifying in the fact pattern of the tentative agenda decision that "doctors" are not "customers" as defined by IFRS 15 *Revenue from Contracts with Customers.* This is to clarify that the guidance in IFRS 15 on identifying performance obligation does not apply to the promotional activities described in the tentative agenda decision.

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

Yours sincerely,
Angelo Casò
(Chairman)