Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. +39 06 6976681 fax +39 06 69766830
E-mail: presidenza@fondazioneoic.it

IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom
ifric@ifrs.org

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Re: IFRS Interpretations Committee tentative agenda decisions published in the September 2018 IFRIC Update

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ("the Committee") tentative agenda decisions included in the September 2018 IFRIC Update.

Our comments refer to the following tentative agenda decisions:

- Assessment of promised goods or services (IFRS 15 – Revenue from Contracts with Customers);
- Liabilities in relation to a joint operator's interest in a joint operation (IFRS 11 – Joint Arrangements);
- Investment in a subsidiary accounted for at cost: step acquisition (IAS 27 - Separate Financial Statements);
- Deposits relating to taxes other than income tax (IAS 37 – Provisions, Contingent Liabilities and Contingent Assets);
- Load following swap (IFRS 9/IAS 39 Financial Instruments).

Assessment of promised goods or services (IFRS 15)

As mentioned in our comment letters on the September 2017 and November 2017 IFRIC Update, we think that the Committee should not discuss the application of IFRS Standards to specific fact patterns, because this may have unintended consequences (ie an entity might apply the Committee's conclusion to a similar fact pattern that should be accounted for in a different way).

The Committee noted that when an entity charges a customer a non-refundable upfront fee, the entity considers whether it transfers a promised good or service to the customer at or near contract inception or, instead, for example, whether any activities it performs at or near contract inception represent tasks to set up a contract.
We agree with this statement, but we think that the admission service may be considered as a distinct service, because a customer can benefit from that service separately from ongoing listing service. Indeed, the admission service can be provided without providing the ongoing listing service and vice versa, the ongoing listing service can be provided without having provided the admission service. This depends on national laws and regulations and on how the stock exchanges are organised.

We also think that, in some cases, the up-front fee may be considered by the stock exchange as a refund for the incurred costs. In this case, it is not clear whether IFRS 15 is applicable.

Finally, the Committee's decision implies that the stock exchange should assess the period over which the up-front fee should be recognised recognise. In our view, this assessment would be judgemental, costly and would not provide reliable information to users.

Liabilities in relation to a joint operator's interest in a joint operation

We note that paragraph B11 of IFRS 16 states that (emphasis added): "*contract to receive goods or services may be entered into by a joint arrangement,* ***or on behalf of a joint arrangement****, as defined in IFRS 11 Joint Arrangements. In this case, the joint arrangement is considered to be the customer in the contract. Accordingly, in assessing whether such a contract contains a lease, an entity shall assess whether the joint arrangement has the right to control the use of an identified asset throughout the period of use*".

This paragraph is not mentioned in the tentative agenda decision. In our view, this paragraph is important, because it seems to say that if a joint operator signs a lease contract on behalf of a joint arrangement, then the joint operation (and not the lead operator) is the customer of the contract. Thus, according to this paragraph, the lead operator should recognise only its share of any liabilities incurred by the joint operation.

We understand that many companies in the extractive industry are interpreting paragraph B11 of IFRS 16 in this way. Consequently, we do not agree with the Committee's conclusion that the requirements in existing IFRS Standards provide an adequate basis for the lead operator to identify and recognise its liabilities in relation to its interest in a joint operation.

Investment in a subsidiary accounted for at cost: step acquisition

We acknowledge that the issue raised to the Committee relates to the cost of an investment in a subsidiary acquired in stages in the Separate Financial Statements (SFS). However, we think that the request highlights a broader issue of how defining cost in SFS. The Committee analysed the issue of the meaning of cost only in the specific transaction of steps acquisition. The definition of cost applies to many other circumstances. For example in the case of loosing control over a subsidiary in the case in which the residual investment (eg investment in associate) is still measured at cost in accordance with IAS 27.

Moreover, considering the agenda decision, it is not clear how to apply the *fair value as deemed cost approach* to some types of step acquisitions in SFS; for example, when the initial interest is an associate rather than an investment measured at fair value. It seems that the *fair value as deemed cost approach* would require to re-measure the initial interest at fair value. This may generate an unrealised gain in profit or loss, which in our view is inconsistent with the criteria of cost.

We are not convinced that in this case the approach applied in the consolidated financial statements, ie revaluing the residual investment at fair value, has still merits when the measurement model does not change, ie remains at cost. We think that this broader issue is fundamental for entities that apply IFRSs in SFS. We believe that entities that apply IFRSs in their SFS deserve clear requirements.

We suspect that clarifying the definition of cost of an investment in a subsidiary, joint venture or associate, cannot be done with an agenda decision, but requires a specific project. All the implications of different possible definitions should be careful evaluated before reaching a conclusion. Consequently, we disagree with the Committee's conclusion not to undertake standard-setting agenda this matter. We, as a national standard setter of a country, which applies IFRS to the separate financial statements, are pleased to directly contribute to a project on this topic.

Finally, we have a comment also on the wording of the tentative agenda decision. Indeed it is firstly said that:

"*the Committee concluded that a reasonable reading of requirements in IFRS Standards could result in the application of either one of the two approaches outlined in this agenda decision (ie fair value as deemed cost approach or accumulated cost approach)*"

and then that:

"*Committee members expressed their preference for the fair value as deemed cost approach. This is because, in their view, the accumulated cost approach would not provide useful information to users of financial statements*."

We think that this second statement may create confusion, contradicting the statement which specifies that different approaches can be applied. Therefore we suggest to delete this second statement, if the Committee decides to finalise this tentative agenda decision or even if the Committee agrees that a project to clarify the point is needed.

Deposits relating to taxes other than income tax

We agree that:

- the timing of the payment should not affect the assessment of whether a liability (and an expense) should be recognised and
- an entity should recognise a liability only if it is probable that it will lose the litigation.

However, as mentioned in our previous comment letter[1] on a similar issue, we are aware that there is diversity in practice in accounting for advance payments made during any kind of litigation (ie tax litigations and any other litigation): some entities recognise an asset for the payment other entities consider the payment as a contingent asset.

Consequently, we disagree with the Committee decision not to add this issue to its standard-setting agenda, we believe that the Committee should clarify, with an Interpretation or an Amendment, the accounting for advance payments made during any king of litigation.

Load following swap

The Committee observes that the terms of the hedging instrument (in the request, the load following swap) do not affect the assessment of whether a forecast transaction is highly probable. We think that this is in line with the requirements of IFRS 9 or IAS 39; however, we think that in this specific situation these requirements do not lead to the right conclusion, because the entity has fully eliminated the hedged risk. In our view, in this case, applying hedge accounting would provide relevant information

In addition, we acknowledge that the highly probable requirements in IFRS 9 is not new as IAS 39 includes the same requirement and that the paragraph BC6.95 of IFRS 9, explains that the IASB decision not to carry forward the IAS 39 Implementation Guidance on hedge accounting, did not mean that the Board had rejected that guidance.

However, we think that it would be simpler to include that guidance in IFRS 9, instead of requiring an entity to apply the Implementation Guidance of a superseded Standard (IAS 39).

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

Yours sincerely,

Angelo Casò
(Chairman)

[1] Please see our comment letter on the January 2014 IFRS IC tentative agenda decision IAS 12 – *Threshold of recognition of an asset in the situation in which the tax position is uncertain.*