

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

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IFRS Interpretations Committee tentative agenda decision *Definition of a Lease—Substitution Rights (IFRS 16)*

Dear Mr Mackenzie,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee (“the Committee”) tentative agenda decision regarding the definition of a lease and substitution rights (“TAD”) included in the November 2022 IFRIC Update.

We agree with the conclusion reached by the Committee that, in the specific fact pattern described in the request, the condition in paragraph B14(b) does not exist throughout the period of use. We also agree with the Committee when states that determining whether a supplier’s right to substitute an asset is substantive throughout the period of use requires judgement.

However, we suggest the Committee to reconsider the following wording used in the TAD: “the condition in paragraph B14(b) does not exist throughout the period of use because the supplier is not expected to benefit economically from exercising its right to substitute a battery for at least the first three years of the contract. Those years are part of the period of use. Consequently, the supplier’s substitution right is not substantive throughout the period of use.”

In our view, this sentence might be read to require that the supplier’s substitution right is substantive only if the supplier could benefit economically from exercising its right throughout the period of use (i.e. at any time). We are concerned by this interpretation, because as mentioned by Committee, determining whether a substitution right is substantive requires judgement. For example, we believe that the condition in paragraph

B14(b) should be met if the supplier would benefit from its substitution right for substantially all the period of use (e.g., for the entire 10-year period except for the first month).

Therefore, we suggest the Committee to review the wording of the TAD in order to clarify that in the specific fact pattern described in the request the supplier's substitution right is not substantive, because three years is a substantial part of the ten years period.

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

Yours sincerely,
Angelo Casò
(Chairman)