

**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](mailto:presidenza@fondazioneoic.it)

IFRS Interpretations Committee  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
[ifric@ifrs.org](mailto:ifric@ifrs.org)

26 July 2013

**Re: Interpretation Committee tentative agenda decisions**

Dear Wayne,

We are pleased to have the opportunity to provide our comments in order to contribute to the IFRS IC agenda decision (issued in May 2013) on IFRS 10 – *"Consolidated Financial Statements—Effect of protective rights on an assessment of control"*.

We are writing to communicate our agreement with regard to the tentative decisions reached on the above-mentioned issues.

**IFRS 10 – Consolidated Financial Statements – Effect of protective rights on an assessment of control**

The issue relates to protective rights and the effect of those rights on the power over the investee when there is a change in the facts and circumstances that affect them (for example a breach of a covenant in a borrowing arrangement that causes the borrower to be in default).

The IFRS IC noted that IFRS 10.8 requires an investor to reassess all rights to establish whether it controls an investee whenever facts and circumstances change. Therefore, protective rights should be included in a reassessment of control when facts and circumstances change. The IFRS IC also observed that if the breach of a covenant resulted in the rights becoming exercisable, that did constitute such a change.

The IFRS IC decided not to add this issue to its agenda because it does not expect significant diversity in practice to develop following the implementation of the Standard.

The protective rights ensure that at the occurrence of pre-defined conditions the payee may exercise the rights to the underlying shares. The protective rights remain "protective" until facts occur (for example, the breaking of covenants) that make them exercisable so as to allow the payee to exercise influence on the significant activities of the entity. We think that the breaking of

a covenant represents a change in the "Facts and Circumstances" that may change the nature of the protective rights, making them substantial. So, in line with IFRS 10 (paragraphs B22 et seq.), such a change imposes a reassessment of the control including the protective rights within the assessment of the control.

We think that IFRS 10 is clear on this point and, therefore, we agree with the IFRS IC tentative decision not to add this issue to its agenda.

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

Yours sincerely,

Angelo Casò  
(Chairman)