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Re: Consultation on Proactive Work

Dear Sir/Madam

We appreciate the EFRAG initiative to consult constituents on the priorities of the proactive activities, aimed to ensure that the proactive work leads to practical solutions to relevant financial reporting issues.

Continuous research activity is critical to achieve a high-quality set of accounting standards, which is the main objective of the International Standard Setter, and we are convinced that the EFRAG must play a key role. The increasing focus on proactive activities in recent years is a clear signal that the EFRAG is moving in the right direction.

The OIC is committed to lead the *Business Combination under common control* proactive work which is currently scheduled in the EFRAG agenda and in the near future, presumably after the completion of this project, it would be pleased to contribute to other projects.

Having confirmed the OIC support for the EFRAG strategy on the proactive activities, we are very pleased to provide you with responses to the specific questions.

Question 1

Prior to this consultation were you aware of EFRAG's Proactive Accounting in Europe (PAAinE) publications? Did you find them useful and why or why not? In what ways do you think they could have been improved? Do you think they had a sufficient focus on European issues?

The proactive projects completed in the past few years have been particularly useful, as at least they allow the EFRAG to form a view when the IASB have decided to add the topic of the proactive project to its active agenda. However, we think that the proactive projects should be considered *Discussion papers* rather than position papers and as they are aimed

to promote the debate on specific issues among the European stakeholders, the outcome of the project should cover the most significant European views on the issue and make the attempt to explore pros and cons of each view. This approach may achieve two different objectives: to promote debate among parties that have different views and to contribute to the work of the IASB with an unbiased analysis of the different positions.

Question 2

Based on the description above (under ‘How we influence the IASB’), at what point in the standard-setting process should EFRAG focus its proactive work? Also are there specific aspects of financial reporting where we should concentrate our activities?

The usefulness of any proactive activities changes radically in relation to the time it is made available to the IFRS Foundation. It can be argued that any proactive project that is intended to be completed only after the IASB has undertaken a project, immediately loses most of its usefulness, as it cannot be used by the Board as a starting point for the project, but it assumes more the form of a subsequent comment like many others.

For this reason, the proactive projects that give evidence of unfeasibility of being completed before the IASB would start its work on the same topic, should not be carried over.

Question 3

Table 2 ‘Proposed Proactive Projects’ below identifies projects where EFRAG considers it may be useful to undertake proactive work. Can you rank the projects from most to least important based on EFRAG’s strategic aims:

Proactive Strategic Aims

- Aim 1: Influence the development of global financial reporting standards;
- Aim 2: Engage with European constituents to ensure we understand their issues and how financial reporting affects them;
- Aim 3: Provide thought leadership in developing the principles and practices that underpin financial reporting; and
- Aim 4: Promote solutions that improve the quality of information, are practical, and enhance transparency and accountability.

The list of potential proactive work proposed by the EFRAG includes different categories of projects: those more related to the need to address important issues that European constituents are currently dealing with and those that are more related to the development of global financial reporting standards.

Projects mostly aimed to address issues for constituents

Among the potential projects listed in the EFRAG consultation paper, the OIC identifies some that seem to more specifically address issues that Italian constituents are currently experiencing. The most important is the project on the application of IFRS to individual financial statements. Since in Italy the application of IFRS became mandatory in the separate financial statement of most listed companies, the number

of accounting issues seems to have multiplied. Some argue that this is because the role of the separate financial statement is different from the consolidated financial statement and, that then it is possible that an accounting treatment valid for the consolidated is not so for the separate financial statements. A project that investigates these potential differences in terms of user needs and management stewardship is critical.

Regarding other projects that address significant accounting issues, there are those related to the post implementation review. Before entering into the details of these projects, it is important to acknowledge that the IASB projects on post-implementation review should presumably start by the end of 2011. Therefore, before undertaking a proactive project on these topics, the EFRAG should be committed to completing the proactive work before the IASB starts its project, and so by the end of 2011.

Having said that, we believe that one of the post-implementation-review potential projects listed in your consultation paper is in our view more significant than the others. It is the post-implementation review of IFRIC 12 'Service Concession Arrangements as it is linked to a topic on which, in the recent past, many stakeholders in Italy raised concerns to the OIC.

In our view, these two projects, should have a priority, as they would directly contribute to solving significant issues, at least for Italian constituents. Considering the complete list of potential projects that have a characteristic to address specific issues for constituents, a ranking would be as follows:

1. Application of IFRS to individual financial statements;
2. Post-implementation review of IFRIC 12 'Service Concession Arrangements;
3. Develop European Input to the IASB's post- implementation review of IFRS 3 'Business Combinations;
4. Share-based payments;
5. Government grants;
6. Develop European Input to the IASB's post-implementation review of IFRS 8 'Operating Segment.

Projects mainly aimed at the development of "high quality" global financial reporting standards

This category includes the projects that deal with how the International Standard Setter operates and aspects linked to the conceptual basis for the IFRS. This category includes the following potential projects listed in your Consultation paper:

- European perspective on development of post-implementation reviews (Post-implementation review policy);
- Understanding the Decision Environments of Users of the financial report;
- Performance Reporting – Phase 3.

The first project has an important strategic role, as it would push the IASB to review the due process of the post-implementation review, and might help to reconsider improvements to the due processes of other functions of the IASB, such as the Interpretation process. A debate on the due processes of the IASB is paramount and, considering that this is something the IFRS advisory council is currently debating, any proactive project on this topic should be completed by the end of 2011.

The other projects deal with the framework of IFRS. We think that this kind of research activity should always be on the agenda of any Standard Setter. Usually, these projects need more time to be completed, as they need much more discussion than projects on specific issues. For these reasons, they should be carried out simultaneously with other projects. Accordingly, we think that at least two of those projects should be considered among the priorities, and based on initial thinking it seems that a project on understanding the Decision Environments of Users of the financial report would be more useful for the IASB, considering that in the development of all the projects it is continuously seeking inputs from users, perhaps not always perfectly understanding how they engage with financial information.

If there are other projects you consider more important include them in your ranking and provide a short description of them along with your reasons as to why you believe they are important for EFRAG to consider.

At this stage, we do not have evidence of other proactive projects that might be added to your proposed list.

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If you have any queries concerning our comments, please do not hesitate to contact us.

Yours faithfully,
Angelo Casò
(Chairman)