

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

EFRAG
35 Square de Meeûs
B-1000 Brussels
BELGIUM
commentletter@efrag.org

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Re: EFRAG Discussion Paper: “Classification of Claims”

Dear Françoise,

We are pleased to have the opportunity to provide our comments regarding the Discussion Paper (DP) “Classification of Claims” issued by the European Financial Reporting Advisory Group (EFRAG).

We generally appreciate EFRAG’s efforts to develop a document containing a complete analysis on the classification of equity and liability and we support the debate because we believe that the definition of these elements is an absolutely crucial topic.
Because of the complexity of the project and the impact that it can have on accounting standards, we believe it is necessary to make certain limited observations to those matters in which we think it is appropriate to express our position.

On these points you will find explanation in the Appendix.

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

Yours sincerely,

Angelo Casò

(Chairman)

Overall objectives

Q1 Do you believe EFRAG has appropriately identified the objectives to be used when assessing classification requirements? If not what other objectives do you think should be included or should any of the objectives be removed?

Classification choices

Q2 Do you believe EFRAG has appropriately identified the relevant choices that need to be made in determining classification requirements? If not, what other choices do you think need to be made and how do they fit with those that have been identified?

Elements

Q3 If you support classifying all claims as a single element (the claims approach) how do you think the accounting residual and unclaimed equity should be accounted for? How should financial performance be depicted?

We agree with the assumption that the choices on classification of claims, are based on a number of objectives, in particular we believe that EFRAG has appropriately identified these objectives as being to depict (or contribute to depicting): an entity's liquidity, an entity's solvency's, an entity's financial performance and returns to the holders of a particular class of instruments.

Besides, the choices identified and explored by EFRAG, and the consequences of them, seem to be exhaustive. However, although we believe EFRAG has appropriately identified the relevant choices that need to be made in determining classification requirements, we do not support the claims approach.

In fact, consistently with the current standards, we support the "binary approach"; notably, according to IAS 32, we think that it is proper to define positively only the concept of liability in order to leave equity as a residual category. This solution seems to be a good compromise between a simple application and the significance of information.

On the contrary, we think that defining positively both liability and equity may lead to an overlapping/gapping definition.

We are also aware that the current definition of liability does not reach all the possible aims, however at this present time there is no better alternative.

Dilution

Q7 How do you think dilution should be depicted? If more than one class of instruments were to be classified as equity how should the returns to the various classes be depicted?

We think that dilutive effects should not, generally, lead to economic effects, therefore we do not consider necessary to depict directly the dilution in Profit or Loss. In fact, we support an entity perspective of financial reporting according to which financial information is presented from the perspective of the entity as an economic unit separate from its owners, rather than a proprietary one.

Besides, we are aware that the existence of different types of claims on equity may lead to several difficulties in portraying the returns to holders of the various classes of claims on equity; for this reason it seems appropriate to depict the rights of various claims on equity through the disclosure, notably in the notes and in the management report.