

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

**Mr. Pedro Solbes Mira**  
**Chairman**  
**EFRAG Supervisory Board**  
35 Square de Meeûs  
B-1000 Brussels  
BELGIUM  
e-mail: [commentletter@efrag.org](mailto:commentletter@efrag.org)

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**Re: EFRAG draft comment letter on The annual improvements process: Proposals to amend the Due Process Handbook for the IASB - Criteria for Annual Improvements to IFRSs**

Dear Mr. Solbes,

We are pleased to provide EFRAG with our comments in order to contribute to the finalization of the EFRAG comment letter on the IFRS Foundation Trustees Consultation Document on The annual improvements process: Proposals to amend the Due Process Handbook for the IASB.

We welcome the fact that the IFRS Foundation Trustees are seeking advice on how to formalise the detailed criteria in the IASB Due Process Handbook for assessing the appropriateness of amendments to IFRSs for inclusion in the Annual Improvements Project.

In fact, the proposals of the Trustees of the IFRS Foundation are an important step in clarifying aspects of the due process that were not specifically addressed in the Due Process Handbook for the IASB, and as a result the standard setting process was not as transparent as required. In particular, in relation to the proposals under commenting, it is pleasing to see that one critical area of the due process has been addressed. The OIC noted in the past that this was something that needed to be reviewed. It was while commenting on the EFRAG draft comment letter on the IASB ED Improvements to IFRSs 2009 that the OIC said *“The improvement project should clarify the aspects that result in difficult application of IFRSs and not change the rationale of accounting standards. This is not the case of the proposed amendment. ... We think it is important to define the boundaries of the improvement projects. In our opinion, the improvement projects should provide the stakeholders with clarification of the application of the existing standards, rather than changing the accounting principles that underlie the standards”* (OIC comment letter of 1 November 2009).

In relation to the EFRAG draft comment letter, going into the proposals in detail, the OIC shares the concern there may be a risk that allowing an improvement could create an exception from an existing

principle. Exceptions and exemptions from a principle should be identified under more comprehensive projects, like a complete review of a standard, developing a new standard or post-implementation review, that are supposed to follow a more intensive level of discussion from the Board. The OIC is afraid that by introducing exceptions the same result of changing principles is reached, even if restricted to specific circumstances, and then it goes beyond the purpose of improvement projects.

Among the criteria proposed, (b)<sup>1</sup> assumes a significant importance, as it implies an analysis of the potential effects arising from the proposed requirements. This aspect is particularly important and has been discussed in several circumstances. It concerns the effect and impact study. In order to comply with its Due Process Handbook, the IASB should develop procedures that ensure the transparency of the attempts to analyse the effect of its proposals. This is especially valid for the new projects and should be carried out before the decision to take the project into the active agenda.

Moreover, the OIC understands the need for a clear distinction of the amendments from the interpretations, and to this end, the attempt of the Trustees to review the due process of interpretations is welcomed. It is also possible that some of the criteria overlap (i.e. no existing projects in the active agenda on this subject). However, it is important to make clear the different objectives of the two: correcting or clarifying by amending the standards (improvement projects), interpret principles for how to apply to specific situations (interpretations). The proposals of the amendments to the Due Process Handbook seem to go in this direction.

In conclusion, the OIC shares the last two points raised by the EFRAG in its draft comment letter regarding the use of options and the definition of a common procedure between FASB and IASB for the future amendments to the convergence projects. In relation to the former, it is hoped that the IASB is not using such kinds of shortcuts to change the underlying principles of the standards, and if this were the case, it would lose its credibility when it affirms the aim of transparency in the due process in its entirety. Regarding the latter, we understand that this is not clear and, like EFRAG, we believe that the IASB and the FASB should address the issue.

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

Yours sincerely,

Angelo Casò  
(OIC Chairman)

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<sup>1</sup> *The proposed amendment has a narrow and well-defined purpose, i.e. the consequences of the proposed change have been considered sufficiently and identified.*