

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

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

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Re: IASB's quality control procedures prior to or post issuance of a final standard or major amendment to a standard

Dear Hans,

The OIC is pleased to have the opportunity to comment on your draft letter to the IASB regarding your suggestions to improve the IASB's quality control procedures.

We concur with the EFRAG's view that quality control is necessary to facilitate and reduce the cost of implementation of new requirements and support the common objective of consistent application of IFRSs. We also agree that in some circumstances, as for the IFRS 11 *Joint Arrangements*, the quality of the standard-setting process has not been adequate.

The OIC has always noted that a standard-setting process of high quality requires that both the draft and final proposals be subjected to in-depth impact assessment analysis. The impact assessments are fundamental to understanding better the effects of the proposals and the issues that their adoption could raise and therefore to enhancing the quality of financial reporting standards.

Therefore, if appropriate impact assessments were carried out during the due process and carefully evaluated by the IASB before the approval of the final standard, there would be no need to significantly amend the standard after publication, because most of the interpretative issues would be dealt with before its release. Moreover, this would result reduce the number of requests to the IFRS Interpretation Committee (IFRS IC) and ensure more consistency in the application from the very beginning.

Furthermore, also the assessment for endorsement at European level would be facilitated if extensive effect analyses and field tests were made.

That said, the initiative to create implementation groups could be useful for the IASB, especially if composed mainly of preparers who are in the best position to identify understandability and implementation issues in the phase before the effective date of the standard. However, these groups should not be considered a way to compensate for insufficient field-testing activity.

Therefore, we think that the creation of implementation groups, as suggested by EFRAG in terms of composition and role, may be not functional, would only add an additional layer to the consultation process of the IASB and would give the IASB the excuse to carry out lighter impact assessment before final publication of the standard.

Reading the EFRAG letter, it is unclear whether such implementation groups would have an interpretative mandate and what their relationship with IFRS IC would be.

In addition, in our response to the revision of the IASB Due Process Handbook in 2012, we noted that even when the IFRS IC *“says that the issue is already clear the same effects as an interpretation are determined... Therefore, while affirming that the rejections are not mandatory requirements, the effect produced is exactly the opposite”*. In our view, the EFRAG’s proposal that the groups can issue tentative decisions amplifies the critical issue of the authority of the rejection notices as well as possibly creating confusion over the role of the IFRS IC compared with these groups.

Furthermore, we note that the provision of an implementation stage would postpone the adoption of a final standard by jurisdictions, because they would expect a subsequent final amended version to be released at the end of this step, extending de facto the IASB due process and postponing the implementation activity by preparers.

With regard to the fatal flaw reviews, in the past we commented that all constituents should have *“the opportunity to provide input in order to clarify further aspects of the text as well as to use this version for field testing. The results of this review should be examined in public meetings and considered by the IASB when making its decisions”*.

We are aware that the IASB has clarified in the *Due Process Handbook* that the objective of fatal flaws is merely editorial and thus this further formal step would lengthen the process and neither would it be the right tool to operate on the standard in a timely manner. However, in this regard, in order to improve the standard-setting process, we would point out the need for a re-exposure of the near-final version when this version introduces requirements that could be critical or amend in a significant manner the proposals included in the exposure draft.

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

Yours sincerely,

Angelo Casò
(OIC Chairman)