

**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)

Tricia O'Malley  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
[tomalley@iasb.org](mailto:tomalley@iasb.org)

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**Re: Exposure Draft of Proposed Amendments to IFRS 1 – Additional Exemptions for First-time Adopters**

Dear Tricia,

we are pleased to have the opportunity to comment on the IASB *Exposure Draft of Proposed Amendments to IFRS 1*. This letter is submitted in OIC's willingness to contribute to the international debate on the Exposure Draft mentioned above.

**General**

In several parts of the Exposure Draft there is a reference to a concept of impracticability which an entity should respect when it makes use of the exemptions in question. We obviously agree with the reference if it means that "Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so" (IAS 8, paragraph 5). In contrast, we would not agree with the reference if it implied the introduction of a sort of "impracticability test" such as that proposed in the earlier drafts of the IFRS 1 and no longer retained in the final version of the standard. We would not see any particular reasons why such a test could be required for the assets in question: the mandatory impairment test specifically required by this Exposure Draft at the First-time-adoption date excludes any possible excessive revaluations.

**Specific Issues**

**Question 1 – Do you agree with the proposed deemed cost option for entities using full cost accounting under previous GAAP? Why or why not? If not, what alternative do you propose and why?**

**Question 2 – Do you agree with the proposed disclosure requirements relating to the deemed cost option for oil and gas assets? Why or why not?**

The Exposure Draft proposes that an entity that used full cost accounting under its previous GAAP may elect, at the date of transition to IFRSs, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development or production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date.

We are conscious of the unavailability of certain useful information for the entities applying the IFRSs retrospectively. For this reason, we completely agree with the IASB's approach.

On the other hand, we disagree with the limited application of these exemptions solely to the oil and gas industries. Probably, entities operating in other extractive industries have to deal with the same issue.

Consequently, we recommend widening the scope of these exemptions to all the extractive industries, without specifying any particular industries only because they are the most affected by the issue.

**Question 3 – Do you agree with the proposed deemed cost option for entities with operations subject to rate regulation? Why or why not? If not, what alternative do you propose and why?**

The IASB proposes to allow the use of the carrying amount for property, plant and equipment in operations subject to rate regulation, as determined under the previous local GAAP. The exemption can be used for individual items and it is not mandatory to use the same accounting principle for the entire category.

The IASB is conscious of the fact that the values determined under the previous local GAAP could be significantly different from those which would have been determined applying the IFRSs. For example, some regulators could allow capitalization of the borrowing costs inclusive of the cost of equity – this treatment is not compliant with the requirements of IAS 23. The IASB recognizes that determining the value of an item without taking into account such costs could be impracticable because in certain cases identifying these components is too complicated.

Consistent with the above issues, the IASB has proposed adopting this exemption with the aim of avoiding excessive reporting costs for the entities in First-Time-Adoption. At the same time, the IASB has proposed introducing a mandatory impairment test at the First-Time-Adoption date with the aim of excluding any possible excessive revaluations.

We agree with the exemption proposed (because we share the same concern about the excessive reporting costs for the entities) and with the introduction of a mandatory impairment test, which should align the previous values to IFRS-compliant values.

On the other hand, we would not agree with the concept of impracticability introduced in the Exposure Draft if it meant a sort of "impracticability test" which an entity should apply when it makes use of the exemption (see the paragraph General above).

**Question 4 – Do you agree with the proposal not to require the reassessment of whether an arrangement contains a lease in the circumstances described in this exposure draft? Why or why not?**

The amendment proposed would enable retention of the accounting treatment of whether an arrangement contains a lease when the local GAAP require the application of the same accounting treatment of IFRIC 4 but from a different date. In this case, the entities would not be obliged to reassess such treatment.

We agree with the IASB's proposal because the scope of the exemption is limited to the particular case of IFRIC 4, without the possibility to extend the exemption to similar cases. It is only a question of different dates in which the valuation is made.

**Question 5 – Do you agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed? If not, in what other situations is relief necessary and why?**

Initially, the IASB was not thinking of defining the scope of the exemption described in question 4, leaving entities free to make use of the exemption for those principles which had the same accounting treatments required by the local GAAP, but from a different date. Subsequently, the IASB concluded that the only case in which this condition would be satisfied was the IFRIC 4.

We agree with the IASB's proposal to exclude any other cases in which there could be the same accounting treatments but from different dates. In this way, possible abuses in hypothetical "rare circumstances" would be avoided.

Yours sincerely,

Angelo Casò

(OIC Chairman)