

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

Rome, May 2006

Email: ed.accounting@cica.ca

Re: Response to Discussion Paper Measurement Bases for Financial Accounting – Measurement on initial Recognition

Dear Sir,

The Italian accountancy profession represented by the Consiglio Nazionale dei Dottori Commercialisti and the Consiglio Nazionale dei Ragionieri (thereinafter “we”) is pleased to submit its response on Discussion Paper Measurement Bases for Financial Accounting – Measurement on initial Recognition.

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

Mario Damani
Chairman of Consiglio Nazionale dei Dottori Commercialisti

William Santarelli
Chairman of Consiglio Nazionale dei Ragionieri

Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili

**MEASUREMENT BASES FOR FINANCIAL ACCOUNTING – MEASUREMENT
ON INITIAL RECOGNITION**

Preliminary we believe that the discussion on the measurement bases for financial accounting on initial recognition of assets and liabilities shall be made jointly to the one regarding the subsequent measurement of same assets and liabilities, because the choose of a certain criterion of initial measurement is strictly linked to the application of the same criterion in the subsequent financial statements.

1- We believe that the list of the possible measurement bases:

historical cost, current cost (reproduction cost or replacement cost), net realizable value, value in use, fair value, deprival value is complete.

2- It is necessary to propose some observations regarding the definitions of some measurement base:

a) The historical cost of an asset which has been constructed during a significant period is not only the fair value measured at the moment of the completion of the construction, but the amount deriving by the accumulation of the costs incurred in the various phases of the construction.

3- Yes, we agree.

4- We agree with the point of the letter a).

We agree with the definition of “market”.

We don't believe that in all cases the measurement at fair value is superior to the measurement based on the entity-specific value.

5- Yes, we agree.

Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili

- 6- Yes, we agree with the criteria of comparison between market objectives and entity-specific objectives, even if we don't believe that the measurement at market value is always superior to the one based on the entity-specific values. This is explained also because some items do not exist or values extracted from efficient markets do not always exist.
- 7- Sub a): No, we don't agree because if the markets are not efficient, different prices could exist for the same item.
Sub b): the same paragraph 63 states that the differences between market values may depend from other factors more than the two ones above mentioned.
- 8- Yes we agree.
- 9- Yes we agree.
- 10- Yes we agree.
- 11- Yes we agree.
- 12- Yes we agree.
- 13- Yes we agree.
- 14- As considered by EFRAG, the response to the question is not simply, because the debate on the validity of the initial bases of measurement can not be made separately, but it should be inserted in the broader debate of the model of determination of capital and income which is believed of being adopted and on the subsequent measurement bases (or redetermination) of assets and liabilities.
- 15- We agree that there are various situations where the fair value can not be reliably measured, because the price of single, isolated transactions can not represent the fair value and the fair value can not be reliably measured when the models and the valuation's technique are based significantly on specific assumptions and forecasts of entity and not of market's participants.

Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili

- 16- Generally we agree with the analysis and the conclusions of the Discussion Paper on the comparison of various measurement bases; it seems that, in comparison with historical cost, the fair value is over estimated, because it does not consider sufficiently some difficulties of determination.
- 17- Yes, we agree.
- 18- Yes, we agree.
- 19- As believed by EFRAG, the discussion on the initial measurement bases may not be separated from the concept of capital maintenance which is believed to be adopted (financial capital maintenance versus physical capital maintenance).