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**Re: Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB**

Dear Mr. McGregor,

we are pleased to provide our comment on: “Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB”.

- 1) In general
  - a) The effort that the IASB is making (with the meeting with the NSSs in September 2004, with the MoU and with the Meeting planned for September 2005) can only be very much appreciated by the OIC.

There is a general dissatisfaction among the NSSs about the “diaphragm” that exists between the IASB and the NSSs and all efforts to break through that “diaphragm” and improve relations with the NSSs are very welcome.

A widespread use of IAS/IFRS, or at least a convergence towards IAS/IFRS, is unthinkable unless the IAS/IFRS issuing process is agreed with by the NSSs (which must be actively involved in said process).
  - b) However, there remain significant obstacles to such agreement and such involvement, which are not adequately addressed by the proposals of the MoU.

The composition of the IASB, from the Trustees, to the Board, the IFRIC, and the SAC has some very “restrictive” features, such as to make the IASB a kind of high-level “club”, one inevitably destined to have “relationship” problems with the NSSs.

It is necessary to review the process of forming the organs of the IASB, their make-up and their representativeness.
  - c) The enhanced (maximum) transparency in the IAS/IFRS issuing process, as advocated in the MoU, is a vital aspect.

However, the fact of not being involved from the outset of the process and of not being involved in the decision-making phases means that for an NSS (like the OIC) involvement remains limited to comments on the exposure drafts and to acceptance of the “final product”.

- d) Italy's membership of the EU means that the OIC, in its relations and role with the IASB, cannot leave aside the relationships and role of the EU with IASB.

This holds especially for certain areas of the MoU, such as Section 2 (Relationships with regulators), Section 6 (Application) and Section 7 (Interpretations).

- e) The application of the IAS/IFRS beyond PAEs (public accountable entities) and, therefore, in general, to the NPAEs (not public accountable entities; formerly SMEs) also raises particular problems in Italy; the OIC views the IASB project concerning NPAEs very favourably and can only be very interested in participating in said project.

2) In detail (see Appendix to MoU)

Regulators – Convergence towards IAS/IFRS requires the involvement of the regulators. The OIC has no difficulty in terms of relations the Italian “regulators”, who participate in the work and are asked for their views concerning national standards. The problem concerns the Italian legislative background, in part conditioned by the EU.

Communication – The OIC has some concerns regarding the direct relationships between “constituents” and the IASB; the OIC believes it more proper that the problems be passed through the NSSs (and so through the OIC).

However, the OIC is very much in favour of the scheduling of forums and/or round tables with the participation of the IASB.

The OIC considers the question of translating from English to Italian to be very important and believes IASB/OIC collaboration to be important in this regard.

Project role – The OIC is interested in participating in both “research projects” and “project teams”.

The OIC warmly welcomes the IASB's co-operative views on this point.

Comment role – The OIC has always provided full responses to the “consultative documents”.

Problems arise concerning the sometimes very tight deadlines.

Application

The main problems stem from the normative background, in particular for the individual financial statements.

Interpretation

The OIC is of the opinion that the interpretations of the SIC/IFRIC are not always in harmony with the “Italian” situation.

The OIC believes that the IASB should clearly determine the scope of competence of the NSSs (and so of the OIC) in the interpretation of the IAS/IFRS, especially for those aspects of a purely national (Italian) nature.

This aspect is of great importance and the current IASB approach still appears to be very restrictive.

In this context, Italy's membership of the EU needs to be taken into account.

In the attachment there is a possible procedure concerning the role of the National Standard Setters in the interpretation of the IAS/IFRS, regarding issues of wholly local competence.

Education – The OIC agrees with the idea of disseminating, also at national level, an IAS/IFRS “culture” through schooling and professional training.

Yours sincerely

Prof. Angelo Provasoli  
(OIC – Chairman)

Attachment

# DRAFT MEMORANDUM OF UNDERSTANDING ON THE ROLE OF ACCOUNTING

## STANDARD SETTERS AND THEIR RELATIONSHIPS WITH THE IASB (MoU)

### Procedure proposed by the OIC – The Italian Standard Setter

Having taken note of the opinion expressed by the IASB in the MoU of February 2005 concerning the role of the National Standard Setters (NSSs) in the interpretation of the IAS/IFRS, regarding issues of wholly local competence <sup>1</sup>, the OIC suggests that the IASB-IFRIC should adopt a special procedure, as structured below (and summarised in the attached flow chart):

#### I) FORMAL NOTIFICATION BY THE NSS OF THE LOCAL INTERPRETATIONS.

This notification should concern:

- a) the issue and the reasons that have led to the NSS making a local interpretation;
- b) the local interpretation considered to be IAS/IFRS compliant;
- c) the date on which the local interpretation will come into effect, a date which in any event cannot be earlier than the deadline for the IASB-IFRIC to activate the special “call-back” (see below).

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Following this notification, the IASB-IFRIC has two options.

#### II.A) SPECIAL “CALL-BACK”:

1. within ... days of receipt of the notification, the IASB-IFRIC (not deeming the issue one of only local competence) determines the implementation of the special “call-back” and the issuing of a counter-notification to the NSS;
2. the effect of the counter-notification is that (i) the local interpretation does not come into effect and that (ii) the IFRIC undertakes to issue the draft interpretation for comments, thereby initiating the relative due process within ... days of the date of the “call-back”.

#### II.B) TAKING DUE NOTE AND (POSSIBLE) ORDINARY “CALL-BACK”:

1. the IASB-IFRIC takes due note of the local interpretation proposed by the NSS by the fact of its not activating a special “call-back”.
2. the local interpretation comes into effect under the terms notified by the NSS;
3. the IASB-IFRIC still retains the power, at any time, to activate an **ordinary “call-back”**, in accordance with the following terms.
  - A. formal notification to the NSSs concerned (and public communication to any interested party) of inclusion in the IFRIC agenda of the issue to that time subject to local interpretations;
  - B. the receipt of the notification by the NSSs:
    1. does not suspend the application of the local interpretations;
  2. means that the NSSs are not allowed to modify the local interpretations in effect at that time;
  - C. as of the date when the interpretation issued by the IFRIC comes into effect, the local interpretations will automatically cease to be effective.

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The introduction of a procedure structured in this way would undoubtedly have a number of considerable advantages:

- it would confirm the central role of the IASB in international accounting standards;

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<sup>1</sup> MoU, parag. 7, “Interpretation”: “... An issue may affect only one or two jurisdictions and may relate to particular legislative or other local requirements [...]. The IASB cannot (and should not) take into account the many different legislative environments that exist. Accordingly, in some cases, it may be necessary for a national or regional standard-setter to consider issuing some of its own interpretations.”

- it would engender constructive interaction between the individual NSSs and the IASB, with greater involvement of the individual national bodies in the decision-making process and a wearing away of the “diaphragm” that separates them from the Board;
- it would make the NSSs more responsible, as the obligation to notify the IASB would undoubtedly mean for them, at one and the same time, both a brake on the proliferation of “latent” local interpretations and pressure towards improving the quality of the local interpretation proposed;
- it would help to achieve a climate of greater operational certainty, which would be to the benefit of all parties involved in the utilisation of the IAS/IFRS: companies, auditors, NSSs, the IASB itself, etc.

## **PROCEDURE FOR ISSUING LOCAL INTERPRETATIONS FLOW CHART**

### **I) FORMAL NOTIFICATION BY THE NSS OF THE LOCAL INTERPRETATIONS.**

This notification should concern:

- a) the issue and the reasons that have led to the NSS making a local interpretation;
- b) the local interpretation considered to be IAS/IFRS compliant;
- c) the date on which the local interpretation will come into effect (a date not earlier than the deadline for the IASB-IFRIC to activate the special “call-back”).

### **II.A) SPECIAL “CALL-BACK”:**

1. within ... days of receipt of the notification, the IASB-IFRIC determines the implementation of the special “call-back” and the issuing of a counter-notification to the NSS;

2. the local interpretation does not come into effect;
3. the IFRIC undertakes to make public the draft interpretation and to therefor initiate the relative due process within ... days of the date of the “call-back”.

### **II.B) TAKING DUE NOTE AND (POSSIBLE) ORDINARY “CALL-BACK”:**

1. the IASB-IFRIC takes due note of the local interpretation proposed by the NSS;

2. the local interpretation comes into effect on the date notified;
3. the IASB-IFRIC can, at any time, activate the ordinary “call-back” procedure.

### **ORDINARY “CALL-BACK”**

1. formal notification to the NSSs concerned of inclusion in the IFRIC agenda of the issue to that time subject to local interpretations;

2. the local interpretation continues to be applied, but it cannot be modified by the NSSs;
3. on the date the interpretation