Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
E-mail: presidenza@fondazioneoic.eu

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

21 September 2023

Re: Request for Information – Post-implementation Review IFRS 9 Financial Instruments – Impairment

Dear Mr Jens Berger,

We are pleased to have the opportunity to provide our comments on the EFRAG Draft Comment Letter on the IASB Request for Information – Post-implementation Review IFRS 9 Financial Instruments – Impairment, issued by the IASB on May 2023 (the 'RFI').

In order to reply to the IASB's RFI we consulted with our *stakeholders*. The results of this activity highlighted that, in general, the impairment requirements of IFRS 9 are working well and they allow a timelier recognition of credit losses than applying IAS 39. In particular, the requirement to recognize a provision for expected credit losses and to update this amount at each reporting date to reflect significant increase in credit risk jointly with the disclosure requirements, provides users of financial statement with useful information about the effects of credit risk on the amount, timing, and uncertainty of future cash flows.

Our stakeholders did not raise any fundamental question about the application of impairment requirements, they just highlighted some aspect illustrated below. Moreover, the issues that EFRAG indicated as "high" are not considered as such and therefore we suggest to reconsider that priority. From our perspective is much more important the issue about the application of ECL to the intercompany loans.

On the latter issue, we observe that the application of ECL to intercompany loans may be costly and not balanced by benefit for users. Notably in case of investments in subsidiaries, the parent has the ability to control the cash flows and for example the payment/repayment terms of the loans and to convert the loan into equity. Therefore, when the lender has such ability, the loan assumes a risk profile similar to the one of an equity instrument, taking the nature of a capital contribution. Additionally, in case of liquidation, in our jurisdiction and others in Europe, shareholders' financing in favor of the entity are subordinated to the satisfaction of the other creditors, thus those loans become equivalent to an equity instrument. For these reasons, we suggest to the IASB to exclude intercompany loans from the application of the ECL model, similarly to US GAAP (see Accounting Standards Update No. 2016-13 "Financial Instruments — Credit Losses" paragraph 326-20-15-3).

Other elements discussed in our meeting with stakeholders are the following:

Firstly, we agree with the EFRAG suggestion to the IASB to issue educational material to help entities to better disclose post-model adjustments which will allow users to understand and compare management assessments reflected in the post-model adjustments.

Secondly, we consider that overall, the IFRS 7 requirements results in useful information for the users about the credit risk exposure. We observe that current practice is to provide such information in a very detailed manner. However, should the IASB decide to require additional information a preliminary outreach is essential. This would ensure that current practice is adequately taken into account and that the costs for the entities would be minimize.

Lastly, we would like to remember that insurance companies have recently applied IFRS 9, jointly with IFRS 17, therefore the IASB should also collect their feedback on the application of IFRS 9 in the next period.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Michele Pizzo

(OIC President of the Board of Directors)

OIC - Organismo Italiano di Contabilità

00187 Roma - Via Poli, 29 - Tel. +39 06 69.76.681 r.a. - Fax +39 06 69.76.68.30