ORGANISMO ITALIANO DI CONTABILITÀ

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IFRS Interpretations Committee
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Re: IFRS Interpretations Committee tentative agenda decision on Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27 Separate Financial Statements)

Dear Mr Mackenzie,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ("the Committee") tentative agenda decision (hereafter "TAD") included in the June 2023 IFRIC Update.

First of all, we would like to point out, as we have done several times in the past, that the fact pattern covered by the TAD is only one of the many problems concerning separate financial statements, and that, in the absence of a reference framework, it is difficult for preparers to apply IFRS Standards to separate financial statements. Indeed, the lack of clear provisions or guidance in this regard creates application issues which are solved through local accounting practices, which may differ from jurisdiction to jurisdiction. The fact pattern described in the submission is common in our jurisdiction and the prevalent practice is not to consider a merger between a parent and its subsidiary as a business combination, in line with the Committee's outreach findings.

In Italy, this issue has been debated for many years and we strongly recommend the Committee to reply to the question raised by the submitter. The TAD (and the staff paper) does not include any technical analysis of the issue, it merely reports the evidences gathered by the Committee, without specifying how these mergers should be accounted for according to IFRS Standards. In our view, the TAD may accidentally create divergence in practice, because it could lead to believe that both methods (ie acquisition method and book-value method) may be applied in accordance with IFRS Standards. We note that the merger does not meet the definition of a business combination, since the underlying business is controlled before and after the transaction, therefore there are no reasons to apply the acquisition method.

In addition, we suggest the Committee to address (or to ask the IASB to address) this matter in a comprehensive way, clarifying the following issues:

a) how the book-value method should be applied: in particular, which book values should be considered in the separate financial statements of the parent company: those of the consolidated financial statements or those of the subsidiary's individual financial statements. In our opinion, the more suitable technical solution is to use the book values of the parent's consolidated financial statements.

b) when recognising the assets, liabilities, income and expenses of the subsidiary in the parent separate financial statements. In other words, whether the parent separate financial statements should be prepared as if the subsidiary had always been merged, with pre-merger information restated to include the subsidiary's assets, liabilities, income and expenses or whether those items should be recognised prospectively, from the date of the merger;

c) whether and how the book-value method should be applied when there are minority shareholders in the subsidiary (eg the parent controls the 80% of the subsidiary before the merger). In these kinds of transactions, the presence of non-controlling interests can create issues when dealing with the identification of the accounting model that should be applied. These transactions are generally considered as acquisition of non-controlling interests and thus any difference between the consideration paid and the interests acquired is recognised in equity.

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

Yours sincerely,
Michele Pizzo
(Chairman)

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