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2nd July 2010

Re: EFRAG draft comment letter on DP Extractive Activities

Dear Sir/Madam

We are pleased to provide EFRAG with our comments in order to contribute to the finalization of the EFRAG comment letter on the IASB Discussion Paper “*Extractive Activities*” (‘the ED’).

The OIC’s main comments can be summarized as follows:

1. We agree that the DP does not provide a clear rationale for developing a separate accounting model for extractive activities. However, we think that the IASB should provide guidance for applying IFRSs to extractive activities. Such a guidance should include: recognition, measurement and disclosure requirements;
2. We believe that a precise generally accepted definition of reserves and resources is crucial for this project. In order to increase the comparability, all the entities belonging to minerals and oil and gas industries should refer to the same definition of reserves and resources, therefore the IASB may either select one of the existing definitions or develop a new definition starting from the existing definitions.
3. We agree that the definition of the assets relating to extractive activities shall be based on the current Framework definition. Consequently we do not support the type of impairment test proposed in the DP (i.e. an asset exists until proven otherwise). We agree that the IASB should first define the unit of account in a wider context and then it should address the unit of account for extractive activities and consequently recognition and impairment requirements;
4. We believe that the proposed disclosure is too voluminous and costly, especially the disclosure about probable and possible reserves. We agree that the reserve quantity disclosures can provide useful information to users.

Our replies to EFRAG's questions are as follows.

Question 1

EFRAG would like to know:

- if constituents are aware of any conceptual basis for the asset continuum proposals and its interaction with current IFRSs; and***
- what impact the deletion of the scope exemptions to current IFRSs (specifically IAS 16, IAS 17 and IAS 38) would have on current practice and if this would result in decision useful information.***

We think that there is no interaction between the asset continuum proposal and current IFRSs, because the former assumes that an asset can be recognized even if the probability criterion is not met, on the contrary IFRSs recognition requirements are based on the probability criterion. Entities separate development phase from exploration phase because, usually, development activities meet the probability criterion, while exploration activities do not meet it.

Question 2

EFRAG would like to know constituents' view on the application of IAS 36 to extractive activities and any unintended consequences that may arise from such an approach

We believe that the application of IAS 36 requirements to extractive activities would usually lead to an impairment loss.

Question 3

EFRAG would like to know the views of constituents specifically in relation to disclosures. In addition to general comments, it would be useful to understand the views of constituents:

- about the relative usefulness of the proposed disclosures;***
- whether the inclusion of information about projects that are about to be commissioned, or that will begin production in the near future, with an indication of the timing thereof will provide meaningful information; and***
- any alternatives not presented here.***

We agree that current value/fair value disclosures do not provide useful information to users. We think that an indication of when the production will begin can be useful.

Question 4

EFRAG would like to know the views of constituents in this regard

We think that the Publish What You Pay disclosures do not provide useful information to capital providers. These disclosure should be provided in financial statements different from IFRS financial statements. If the IASB believe that these disclosure are useful, all the entities should provide these disclosure and not solely the entities belonging to minerals and oil and gas industries.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours faithfully,
Angelo Casò
(Chairman)