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Re: EFRAG Draft Endorsement Advice on Amendments to IAS 28 *Investments in Associates and Joint Ventures.*

Dear Jean-Paul,

We are pleased to have the opportunity to provide our comments on your draft endorsement advice on the Amendments to IAS 28 Investments in Associates and Joint Ventures ('the Amendments').

We acknowledge that the Amendments to IAS 28 clarify that the requirements of IFRS 9, included impairment requirements, must be applied to the long-term interests (e.g. loans) in associates and joint ventures that, in substance, form part of the entity's net investment in an associate or a joint venture. We understand that the clarification is needed since the introduction of the IFRS 9 impairment model amplifies the effect of the divergent practices arising from the lack of clarity on which IFRS Standard should be applied to long-term interests.

As already noted in our comment letter to the IASB's Exposure Draft, the Amendments highlight that there is a significant issue related with the definition of the unit of account in the case in which an investor holds both a long-term interest and an equity investment over an investee. According to the Amendments, there is one unit of account (the equity investment plus the long-term interest) for the purpose of IAS 28 loss allocation, whilst there are two separate unit of accounts (the long-term interests and the equity investment) for impairment purposes.

We would agree with such a solution in the circumstances where it is clear that the long-term interest is a debt instrument distinct from the equity investment. However, this distinction might not be evident in some circumstances, notably in case of investments in joint ventures and even more so in case of investments in subsidiaries. Indeed, in these circumstances, the entity has the ability to control the cash flows and the payment/repayment terms of the long-term interest and the investor has the ability to convert the long-term interest into equity. Therefore, we would conclude that when the investor has such ability, the long-term interest assumes a risk profile similar to the one of an equity instrument, taking the nature of a capital contribution.

We note that in the FASB's Accounting Standards Update No. 2016-13 "Financial Instruments — Credit Losses" (FASB ASU) the FASB excludes loans and receivables between entities under common control from its scope (see paragraph 326-20-15-3). We understand that the FASB in order to respond to questions about how an entity would calculate an allowance for loans between entities under common control, decided to exclude these loans. The FASB views such transaction as a capital contribution rather than a loan to be repaid (see BC31 of FASB ASU).

We agree with the FASB's conclusions on this issue and therefore disagree with the IASB's amendments.

Moreover, we note that this is especially evident in relationships in which an investor has control over the investee. In case of liquidation, in our jurisdiction and others in Europe (e.g. Germany), shareholders' financing in favor of the entity are subordinated to the satisfaction of the other creditors, therefore become at that moment equivalent to an equity instrument.

For all these reasons, we would strongly suggest that the above arguments are evaluated in the EFRAG endorsement advice. This implies that EFRAG makes an assessment of the implications of the amendment in respect of the separate financial statements, since equity method is applicable to investments in subsidiaries. We remind that EFRAG has a commitment to inform the European Commission if it is aware that an IFRS Standard needs to be assessed in respect of individual accounts[1], therefore the issue raised should be considered in the endorsement advice.
We are concerned that without a scope exemption for separate financial statements, the Amendments would not lead to European public good and would not meet the technical criteria set out in the IAS Regulation.

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

Yours sincerely,

Angelo Casò

(Chairman)

[1] Please refer to the Working arrangements between European Commission and EFRAG signed in June 2016