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Members of the European Financial Reporting Advisory Group:

Thank you for to opportunity to comment on the Discussion Paper on the “Accounting for Business Combinations under Common Control.” Luxottica Group SpA and its subsidiaries operate in two industry segments: (1) Manufacturing and Wholesale distribution, and (2) Retail distribution.

Since business combinations under common control (herein after “BBUCC”) frequently occur within our Group, we overall support the effort to respond to concerns about the lack of consensus on how BBUCC should be reflected in the financial statements prepared under the IFRS

Generally, our thoughts are that any BCUCC should be at historical cost / predecessor value versus following IFRS3 unless perhaps it is a joint venture - less than 100% owned. It is not realistic to think that a market based valuation can be simulated (there are too many variables and it is subjective which means the valuation done by entities wouldn't yield comparable results and could create P&L benefits by changing ownership within the same ultimate legal entity).

The following represents our thoughts on questions posed in the Discussion Paper.

Question 1.1 - Do you think that the concerns have been accurately described in relation to the issues arising from accounting for BCUCC transactions? If not, please could you suggest other significant concerns that have not been addressed?

Response: Yes, the issue is that there is no specific guidance regarding BCUCC transactions. BCUCC transactions have been specifically scoped out of several standards / projects, thus no formal guidance exists.



Question 1.2 - In your experience, what approaches are typically applied by preparers in practice for BCUCC transactions and what justification is provided to support their application of these approaches?

Response: Typically, we have used the Predecessor basis of accounting. The acquisition method makes users of the financial statements able to assess the investment made by the acquirer in terms of the assets and the liabilities it takes control over and of the subsequent performance of the investment through the consumption of the assets and the settlement of the liabilities. The recognition of the assets and liabilities acquired at their fair value, gives a better information about market expectations of future cash flows related to the assets and liabilities and their future performance. Business combinations among entities within the Luxottica Group usually took place to reorganize the group structure in order to achieve synergies and tax efficiencies. Business combinations also usually occur among entities, directly or indirectly, wholly-controlled by the reporting entity, and therefore with no third party shareholders that might have been interested in assessing the performance of the investment. As such management did not view the acquisition method as the most appropriate methodology to faithfully represent the accounting outcome of the transactions.

Question 2.1 - Are there any issues not included in the scope of the DP that, in your view, need to be addressed in developing an approach to accounting for BCUCC in the consolidated financial statements of the transferee?

Response: No, the question that is not currently addressed by IFRS standards is how to account for the transaction in the financial statements of the transferee.

Question 2.2 - Do you believe that there are any specific issues to be addressed in the initial recognition and measurement of BCUCC in the separate and individual financial statements? If so, please explain what those issues are and how they should be addressed?

Response: In few minor cases there were business combinations, within the Luxottica Group, which affected the reporting entities. Those transactions have been accounted for in the separate financial statements of the reporting entity using the predecessor's basis of accounting. If guidance on the treatment of the BCUCC in the separate and individual

financial statement will ever be issued, we would like this guidance to address how the initial recognition and measurement in the separate and individual financial statements would be different from the presentation in the consolidated statements. The guidance should be clear on any differences.

Question 2.3 - Are there any specific issues you think need to be addressed when considering what information about a BCUCC should be disclosed in the notes to the financial statements of the transferee?

Response: Yes, all required disclosures should be addressed once the guidance is issued on initial recognition and measurement. Specific items to be addressed would be:

- What specific disclosures are required and in what level of detail?
- For what periods?
- Can immaterial transactions be excluded?

Question 3.1 - Do you agree that an important step is to understand the information needs of users in the financial reporting of a BCUCC transaction? If not, how else would you set out an approach that satisfies the objective of financial reporting?

Response: Yes, the primary goal of financial statements is that they should be useful / informative to the users. However, the guidance should be structured so that some level of consistency can be applied.

Question 3.2- It is noted above that the analysis in this DP is taken from the perspective of the transferee (entity perspective) as opposed to the perspective of the owners (proprietary perspective). Do you agree that, to be consistent with existing IFRS, the entity perspective should be dominant when considering BCUCC? If not, why not?

Response: Yes, it should be consistent with existing IFRS (IFRS 3) unless the BCUCC affects a joint venture, or a less than 100% owned subsidiary in which there are third party shareholders which would be interested in assessing the performance of the investment.

Question 3.3 - Do you agree with applying the 'logic' of the IAS 8 hierarchy in developing an approach to accounting for BCUCC transactions? If not, what alternative would you propose and how would you reconcile that approach with existing IFRS?

Response: Yes, as it takes into consideration similar issues, key recognition and measurement factors and recent accounting pronouncements by other standard setting bodies.

Question 3.4 - Do you agree that if and when an analogy to IFRS 3 is considered to apply, it is appropriate to assume that fair value at initial recognition provides information that is more decision-useful than values based on previously recognized amounts or any other measurement attribute? If not, please explain why?

Response: Yes, but only when the transaction can be clearly analogized to IFRS 3. In general, we do not believe that BCUCC can be analogized to IFRS 3, as they are inherently different from acquisition transactions at arm's length.

Question 3.5 - Do you agree that if the analogy to IFRS 3 does not apply, defining an appropriate measurement attribute should be guided by an analysis of the information needs of users? If not, why not?

Response: Yes, the needs of the users is the most important factor when building financial statements.

Question 4.1 - Do you agree with the main features of a BCUCC identified above? If not, what other features would you highlight?

Response: Yes. The purpose is important, where it may not necessarily be important in an arm's length transaction. The absence of market conditions is important, as it makes the transactions unique. The nature of the items exchanged is important as it may help provide some insight as to the ultimate purpose.

Question 4.2 - It is noted above that BCUCC can be substantially different in nature from business combinations between unrelated parties. Do you agree that a BCUCC can be different to a business combination under IFRS 3? If so, describe examples you have encountered in practice that verifies this. If not, please explain why?

Response: Yes, as BCUCC are clearly not subject to market conditions. For example, we have dealt with transactions where little to no consideration was given by the transferee.

Question 4.3 - Do you agree with the analysis that has been performed in relation to the information needs of users? If not, why not?

Response: Yes, it seems comprehensive.

Question 4.4 - Do you think that with BCUCC it may be difficult in some circumstances to identify an acquirer (View A) or do you believe that an acquirer can always be identified (View B)?

Response: We believe that an acquirer can always be identified, but it may not be meaningful (from the standpoint that the identified acquirer may be different from the acquirer in an arm's length transaction).

Question 4.5 - If you believe that an acquirer can always be identified in a BCUCC, do you think that an analogy to IFRS 3 is not valid because the ultimate parent entity can direct the identification of an acquirer so that the accounting outcome is not a faithful representation of the underlying BCUCC transaction?

Response: The analogy to IFRS 3 may or may not be valid, depending on the circumstances of the BCUCC.

Question 4.6 - Do you agree with the analysis above that under IFRS 10 'control' should be assessed from the perspective of the reporting entity and not from that of the ultimate parent entity? If not, why not?

Response: Not necessarily – in certain cases, it might make sense to view the ultimate parent as the controlling entity.

Question 4.7 - Do you agree that the definition of a 'business' in IFRS 3 raises no particular issues for BCUCC? If not, why not?

Response: Yes, the definition is still relevant for these transactions and does not raise any issues for BCUCC.

Question 4.8 - Do you think the absence of a market-based transaction can have consequences when applying the recognition principle in IFRS 3 because of a lack of measurement reliability? If so, do you agree with the analysis? If not, why not?

Response: Yes, the absence of a market based transaction would have consequences when applying the recognition principle. Other information could be used to enhance the reliability, but that information would likely be cost prohibitive.

Question 4.9 - Do you think it is appropriate to apply the measurement principle in IFRS 3 to BCUCC when the analogy to IFRS 3 is valid? If not, why not?

Response: Yes, when the analogy is valid. However, there are likely to be many times when the analogy is not valid.

Question 5.1 - Do you believe that the transaction price should be referenced against the fair value of the business acquired and bifurcated (when the transaction price exceeds the fair value of the business acquired) if the transaction price does not reflect a proxy for fair value? This ensures the BCUCC transaction reflects two transactions: a) a contribution from (distribution to) the ultimate parent entity, and b) a business combination.

Response: Yes, but there would be significant challenges with this approach (e.g. determining the fair value of the business acquired).

Question 5.2 - Do you believe that goodwill and/or identifiable intangible assets should not be recognized in the balance sheet of the acquirer on the basis that they cannot be reliably measured?

Response: We believe that goodwill should not be recognized but that intangible assets should (but not necessarily at fair value).

Question 5.3 - Do you believe that where the consideration transferred is lower than the fair value of the net assets acquired, the difference should reflect a contribution from the ultimate parent entity or recognized as income?

Response: We believe the difference should reflect a contribution from the ultimate parent entity.

Question 5.4 - Do you think that the BCUCC should be viewed as a transfer⁴ of a business rather than an acquisition of a business when the analogy to IFRS 3 can never be applied?

Response: Yes, we believe it should be viewed as a transfer.

Question 5.5 - Do you believe that all the arguments and views presented are valid when it is not appropriate to apply an analogy to IFRS 3?

Response: The arguments and views all have valid points, but the Predecessor basis provides a more logical solution for the BCUCC that we typically have.

Question 5.6 - Do you agree that the approaches outlined in Appendix 3 are unlikely to result in decision-useful information? If not, why not?

Response: Yes, because they were either too subjective / unclear or did not take into consideration the needs of all users.

Question 5.7 - Do you believe that the diversity in the information needs of users when compared to a business combination and the cost constraint in financial reporting provide justification to consider whether or not the recognition and measurement principle in IFRS 3 are appropriate when accounting for BCUCC?

Response: Yes, both of these provide adequate justification for assessing whether or not the recognition and measurement principles in IFRS 3 are appropriate.

Question 5.8 - Do you believe that all the arguments presented in relation to view three are valid or are there others that you would consider?

Response: Yes, the arguments are valid. There do not appear to be any others that need to be considered.

Thanks you for the opportunity to share our thoughts on this important topic.

Sincerely



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