© DRSC e.V. ‖ Zimmerstr. 30 ‖ 10969 Berlin ‖ Tel.: (030) 20 64 12 - 0 ‖ Fax.: (030) 20 64 12 - 15
www.drsc.de - info@drsc.de

RIC – öffentliche SITZUNGSUNTERLAGE

RIC-Sitzung:	**41. / 03.08.2010 / 12:45 – 15:45 Uhr**
TOP:	**06 – IFRS 5 - Anwendungsfragen**
Thema:	**Entwurf eines Schreibens an IASB und IFRS IC**
Papier:	**06_1_IFRS_5**

Rechnungslegungs Interpretations
Accounting Interpretations Committee e. V.

DRAFT

AIC • c/o DRSC e.V. • Zimmerstr. 30 • 10969 Berlin

Telefon +49 (0)30 206412-12
Telefax +49 (0)30 206412-15
E-Mail info@drsc.de

Berlin, 23. Juli 2010

Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Mr Robert Garnett
Chairman of the
IFRS Interpretations Committee (IFRS IC)
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear David, dear Bob,

Proposal to address several concerns referring to
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Based on several potential agenda items proposed to and discussed by the IFRS Interpretations Committee over the last months, we – the members of the Accounting Interpretations Committee (AIC) of Germany – have analysed and discussed IFRS 5 further and identified several additional issues and concerns with respect to IFRS 5, which we have detailed in the attachment to this letter.

Overall we found several provisions of the standard systematically not fully convincing since they seem to be complex and casuistic, the latter to some extent in opposition to rather principle-based standards as proclaimed by the IFRS Foundation and stated in their Constitution effective 1 March 2010 in para. 2 (emphasis added):

> ‘The objectives of the IFRS Foundation are:
>
> (a) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon **clearly articulated principles**. ...’

We further noted that the standard tends to lack clarity and decisiveness. Again, please refer to the attachment for further details.

Since we consider the issues identified to be widespread and having practical relevance, the risk of significantly divergent interpretations in practice is rather high. Therefore we would like to propose that you may consider addressing some of these issues in the 2009-2011 cycle of the annual improvements process (AIP) and any remaining issues not addressed via AIP you may consider for inclusion in the post-implementation review to IFRS 5.

In this context we would also like to get back to our letter dated June 15, 2010 sent to the IFRS Interpretations Committee referring to the reversal of disposal group impairment losses relating to goodwill in the context of IFRS 5. We understand and accept that the Committee in it's May 2010 meeting finally decided neither to add a respective project to its agenda nor to add the issue to the Annual Improvements but recommended that the Board address this issue in the post-implementation review of IFRS 5. We are also aware, that the Board in December 2009 decided not to add a project to its agenda to address IFRS 5 impairment measurement and reversal issues at this time. However, in the light of the importance of the issue in practice and the following arguments we ask both the Board and the Committee to consider whether this issue may be taken up again any sooner than in the announced post-implementation review in order to address it:

- a potential conflict between the guidance in para. 22 and para. 23 of IFRS 5 relating to the recognition and allocation of the reversal of an impairment loss for a disposal group when it relates to goodwill has been identified,
- significantly divergent interpretations in practice as a result of lack of clarity of the guidance in IFRS exist (please refer to the observer note 6B for the March 2010 meeting of the Committee),
- so that albeit timely identification the Board and the Committee should not ignore the issue by not providing a resolution to it in an adequate time frame,
- since we consider it both, the IASB's and the Committee's duty and responsibility to maintain and ensure, in the public interest, a set of high quality, understandable and globally accepted financial reporting standards.

For this specific and overly important issue we consider its inclusion in the AIP 2009-2011 to be appropriate since it would address the issue with effect for some time beginning during fiscal years 2011. However, any alternative solution with effect any earlier than that (e.g. addressing the issue separately by the Board – outside of AIP) would be very much welcomed.

Although we understand the current work plan of the IASB does not allow adding a project to replace IFRS 5, we also recommend to the IASB to schedule in the long run a project to replace IFRS 5 by a standard with clearer and more decisive guidance.

If you would like further clarification of the issues set out in this letter, please do not hesitate to contact me.

With best regards

Guido Fladt
AIC, Chairman

Question / Issue	Description
Scope and Classification	
1. May it be possible, that a disposal group is within the scope of IFRS 5 although it consists of current (i.e. short-term) assets only?	The definition of a disposal group as given in IFRS 5 is imprecise. IFRS 5.4 states that if at least one non-current asset within the scope of the measurement requirements of IFRS 5 is part of a disposal group, the measurement requirements of IFRS 5 apply to the group as a whole. Not addressed is the case in which the disposal group consists only of current assets (i.e. no non-current assets) while the presentation rules of IFRS 5 do apply to this ‘disposal group’.
2. Does the dilution of the share capital interest held in an investee (e.g. based on a dispropor-tionate increase in share capital) represent a sale in the meaning of IFRS 5?	The reduction of ownership percentage purely due to a dilution does not represent a ‘sales transaction’, which could be considered as an argument against classifying this transaction as ‘sale’ in the meaning of IFRS 5. However, referring to the loss of control with respect to a subsidiary, such a transaction on the other hand could be considered as an exchange transaction (disposal of the assets and liabilities of the formerly consolidated subsidiary and – as an example – addition of an associated entity) – this would be an analogous application of IFRS 5.10 in combination with IFRS 5.8A.
3. When should the intended sale of shares in an associated entity or a joined controlled entity be classified as ‘held for sale’?	In accordance with IFRS 5.6, a classification as ‘held for sale’ shall be processed when the respective carrying amount will be recovered principally through a sale transaction rather than through continuing use. Is this requirement considered to be met in case of a change in status – for example when the percentage of voting power is reduced from 21% down to 19% (in analogy to IFRS 5.8A)? Or shall the assessment be based on a comparison of the shares sold with the shares previously hold, so that even without a change in status a classification as ‘held-for-sale’ may be achieved (e.g. when 28% of the voting power in an associated entity, in which the investor holds 48%, are going to be sold?).

Question / Issue	Description
4. Is the contribution in kind in the form of a net investment or a business (which is not considered to be a subsidiary, since it is not a legal entity) into a joint venture a sale in accordance with IFRS 5, if in return a 50% share in the joint venture is provided?	Arguing that the recovery as requested by IFRS 5.6 will not be ‘principally through a sale transaction’, the transaction may not be classified as a ‘sale’ (assuming that ‘principally’ means: to an extent in excess of 50%). However, from an economical point of view there is no difference to a sale of a 51%-share. Also, it may not be concluded that the carrying amount will be recovered through continuing use. May it be appropriate to apply IFRS 5.8A to this specific case in analogy?
5. Does the sale of a net investment or a business (which is not a legal entity) into a 50% joint venture qualify for classification as ‚held for sale‘?	See the comments as provided for number 4 above.
Measurement	
6. How shall the impairment test for a disposal group be carried out, if after the sale there is a remaining investment (e.g. a share in an associated company or an IAS 39 investment)?	It is questionable whether 100% of the net-investment to be disposed of shall be included in the impairment test. This would require the determination of a fair value for 100% of this investment (which in turn would mean, that the fair value could not be derived from the selling price).
7. What is the required procedure if the impairment loss exceeds the carrying amount of the non-current assets of the disposal group, which is subject to the measurement requirements of IFRS 5?	There is a contradiction within IFRS 5[1]. In accordance with IFRS 5.22 (b) an impairment loss shall only be distributed to the non-current assets of the disposal group, for which the measurement requirements of IFRS 5 apply. Any loss not considered would - according to these requirements - be recognized upon derecognition. On the other hand IFRS 5.15 requires that a disposal group classified as held for sale shall be measured at the lower of its carrying amount and fair value less costs to sell. Consequently, would the disposal group be considered the unit of account, the impairment loss may be attributed to the current assets of the disposal group as well.

[1] This issue was confirmed by IFRS IC in November 2009.

Question / Issue	Description
8. Is it appropriate to recognise a liability in case of a negative fair value less costs to sell – even if the criteria for recognition in line with IAS 37 are not yet met?	This issue arises even if the view is accepted, that the impairment loss of a disposal group exceeding the carrying amounts of the non-current assets, which are subject to the measurement requirements of IFRS 5, must be allocated solely to the non-current assets of the disposal group.
9. Does a gain for any subsequent increase in fair value less costs to sell comprise previous goodwill impairment losses in accordance with either IFRS 5 or IAS 36?	In this respect a potential conflict exists[2]. It could be argued that impairment losses referring to goodwill must be reversed since IFRS 5 does not contain any reference to the respective paragraph in IAS 36.124 – thus the disposal group is the unit of account and needs to be measured as such. On the other hand, it could be argued that even without explicit reference IAS 36 as the more specific rule does not allow reversing any impairment losses on goodwill, even in instances of IFRS 5. **Note**: This issue is specifically addressed in the cover letter for expedient and swift remediation.
10. What is the appropriate approach with respect to IFRS 5.18, according to which 'immediately before the initial classi-fication of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable IFRSs'?	It appears to be unclear whether the measurement immediately before the initial classification as held for sale shall be based on the continuing use of these assets (or the disposal group) by the reporting entity as it was intended before the decision to sell the asset (the disposal group) was taken. Or is it required to consider the intention that the asset (the disposal group) will be sold when it is measured immediately before the initial classification of the asset or the disposal group as held for sale?

[2] The IFRS IC confirmed this view in March 2010 (for the final agenda decision please refer to the IFRIC Update May 2010).

Question / Issue	Description
Presentation and Disclosure	
11. Need intragroup receivables and / or payables be presented on a consolidated or an unconsolidated basis, if they are part of a disposal group?	IFRS 5 addresses the classification and measurement of non-current assets and disposal groups held for sale. Based on these guidelines, it may not be concluded that the general consolidation procedures as required by IAS 27 are suspended. If this is considered to be true, intercompany balances must be eliminated even if they are subject to IFRS 5 requirements. However, in line with the objective of IFRS 5, information shall be presented in a way to allow users to evaluate the financial effects of discontinued operations and disposals of non-current assets or disposal groups (IFRS 5.30). Therefore, the carrying amount to be presented shall include all assets and liabilities of a disposal group.
12. Shall non-controlling investments presented in the balance sheet be splitted in one part representing the net investment classified as held for sale and another part repre-senting the remainder of this net investment?	It appears to be questionable whether such a split presentation is allowed (required) under IFRS or not.
13. Must a geographical operation be ‘separate’ and ‘major’ in order to classify as a discontinued operation?	The wording of IFRS 5.32 (a) is ambiguous since it appears not to be clear whether the characteristics ‘separate’ and ‘major’ only refer to the line of business or whether they refer to both, the line of business and the geographical area of operations.

Question / Issue	Description
14. How do IFRS 5.8A (disposal in case of a change in status) and the guidance with respect to the classification of a discontinued operation interact?	The issue arises when only part of a fully consolidated subsidiary is being disposed of and the remaining investment is an associated entity accounted for under the equity method, which – however – does represent a reportable segment. For such a scenario it may be questioned whether the change in status in all instances shall be classified as discontinued operation. In favor of this view it could be argued that it represents an exchange transaction (disposal of 100% of the shares in the subsidiary for X% of the associate). Since the shares in the associate represent an 'addition' not before the shares in the subsidiary are being disposed of, the respective portion cannot be presented as an operation to be continued before this transaction has been processed. On the contrary, the activities referring to the associate will be continued, irrespective of whether from a balance sheet point of view the fully consolidated assets and liabilities are disposed of for group account purposes.
15. How should the result of the discontinued operation be presented, when the analysis as required by IFRS 5.33 (b) is provided in the statement of comprehensive income?	In accordance with IFRS 5.33 (a) the post-tax profit or loss of discontinued operations shall be disclosed as a single amount in the statement of comprehensive income. However, it appears to be unclear how this requirement interacts with the presentation requirements of IAS 1. Specifically it is questionable whether amounts assigned to the discontinued operation need to be taken out of the total revenues and expenses, not to mention whether they can be determined to meet this requirement.
16. How should a discontinued operation be presented in the statement of comprehensive income?	There is no specific guidance detailing the required form of presentation. If the presentation is based on the form of a matrix (two columns), it appears to be unclear whether it will be allowed to provide totals on the level of the single reporting lines (e.g. by insertion of a third column representing "Total Group Revenue"). This approach may not be considered acceptable since it could be regarded as misleading.

Question / Issue	Description
17. What are ‘disclosures about measurement’ in the meaning of IFRS 5.5B (b)?	It appears to be unclear to which extent information is required: is it considered sufficient to provide only qualitative information referring to the main measurement methods applied or need specific parameters be disclosed as well? If the latter is considered to be required, what disclosure requirements of relevant IFRSs are considered to be relevant for measurement?
18. How should the required reconciliations be dealt with?	The issue on one hand refers to the numerical reconciliation between tax expense (income) and the accounting profit multiplied by the applicable tax rate(s) as required by IAS 12.81 (c): need the total amounts to be reconciled – irrespective of which amounts need to be assigned to a discontinued operation? Or is the reconciliation only required for operations to be continued? The issue further arises for balance sheet items like provisions for pensions in case these provisions are part of a disposal group.