

Wayne Upton  
Chairman  
IFRS Interpretations Committee  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

23 November 2015

Dear Mr Upton

**Tentative agenda decision – IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: How to present intragroup transactions between continuing and discontinued operation**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification on the presentation of intragroup transactions between continuing and discontinued operations.

We agree that IFRS 5 does not override the requirements of IFRS 10 *Consolidated Financial Statements*, but do not believe that this is sufficient grounds for the comment in the tentative agenda decision that "an entity needs to eliminate intragroup sales against the internal selling party and intragroup purchases against the internal purchasing party" as IFRS 10 makes no reference to the specific journal entries required to achieve this elimination at an overall group level (including continuing and discontinued operations). In fact, for transactions between continuing operations there is no need to allocate the elimination of sales and purchases to any particular party within the group.

As implied in the tentative agenda decision, this approach could lead to circumstances in which an entity's primary financial statements do not enable users to evaluate the financial effects of discontinued operations. For example, in a circumstance in which inventory is purchased from an external supplier by a continuing operating and sold to a discontinued operation this approach could lead to:

- recognition of cost of sales with no revenue in continuing operations and revenue with no cost of sales in discontinued operations when the inventory is subsequently sold to an external customer; and
- when the inventory is still held by the discontinued operation at the reporting date, a reallocation of inventory that is legally and economically an asset of the discontinued operation to continuing operations.

For example, in a circumstance where inventory is purchased by a continuing operation for CU4, sold to a discontinued operation for CU6 and then sold to an external customer for CU7 the approach described in the tentative agenda decision would lead to presentation of cost of sales (with no revenue) of CU4 in continuing operations and revenue (with no cost of sales) of CU7 in discontinued operations. A presentation which fails to reflect the economics of the transaction from either party's point of view and has no predictive value in terms of the entity's future performance and cash flows.

We do not believe that the reference to IFRS 10 is sufficient to prohibit an appropriate allocation of revenue and costs to eliminate such anomalies. One such approach would be to, in the example above, to allocate CU6 of the total (external) revenue of CU7 to continuing operations and CU1 to discontinued operations and to allocate the total (external) cost of sales of CU4 to continuing operations. This would maintain a faithful presentation of the profit earned by continuing and discontinued operations (CU2 and CU1 respectively) whilst complying with the requirement of paragraph B86(c) of IFRS 10 to eliminate intragroup income and expenses (as the total revenue and cost of sales presented reflects only the effect of external transactions).

In addition, we believe that this issue is as problematic as those included in the separate tentative agenda decision 'Various IFRS 5-related issues' and is equally in need of standard-setting activity for appropriate resolution. As such, we believe that it should be dealt with in a consistent manner to those issues rather than by imposing a simplistic approach that does not provide users with useful information and is inconsistent with current practice.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole  
Global IFRS Leader