

Dr. Alexander Schaub  
Director General  
European Commission  
Directorate General for the Internal Market

1049 Brussels

XY June 2004

**DRAFT FOR COMMENTS BY 18 May 2004**

Dear Dr. Schaub,

**Re: Adoption of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* as published by the IASB on 31 March 2004.

IFRS 5 arises from the IASB's consideration of the American standard FASB Statement No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* with the objective of reducing differences between IFRS and US GAAP that are capable of resolution in a relatively short time.

The standard adopts the classification "held for sale" and introduces the concept of a "disposal group", being a group of assets to be disposed of, by sales or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. IFRS 5 requires that assets or disposal groups that are classified as held for sale are:

- (i) carried at the lower of carrying amount and fair value less costs to sell – which means that the related assets cease to be depreciated – and;
- (ii) presented separately on the face of the balance sheet.

While IFRS 5 supersedes IAS 35 *Discontinuing Operations*, the actual amendments are limited to:

- The introduction of the term “a component of an entity”, which is defined as a cash generating unit or a group of cash generating units;
- A change in the timing of the classification of an operation as discontinued. IAS 35 classified an operation as discontinuing at the earlier of (i) the entity entering into a binding sales agreement and (ii) the board of directors approving and announcing a formal disposal plan. Under the new standard, an operation shall be classified as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation;
- A requirement to show the results of discontinued operations separately on the face of the income statement, which is optional under IAS 35;
- A prohibition of retroactive classification of an operation as discontinued when the criteria for that classification are not met until after the balance sheet date but before the financial statements are authorised for issuance.

IFRS 5 becomes effective for annual periods beginning on or after 1 January 2005, with earlier application encouraged provided the valuations and other information needed to apply the standard were obtained at the time that the IFRS 5 criteria were originally met.

EFRAG has evaluated IFRS 5 including its Basis for Conclusions and the consequential amendments to other IFRSs. Our evaluation is based on input from standard setters and market participants in accordance with EFRAG’s due process.

EFRAG supports the IASB/FASB convergence initiative to the extent that it leads to high quality accounting solutions, as commented in detail in our letter to the IASB, dated 27 October 2003, on the related exposure draft. We welcome the improvement of current standards to require a separate classification in the balance sheet of non-current assets (or a disposal group) held for sale as well as a separate presentation of the results of discontinued operations on the face of the income statement. EFRAG is also pleased that, in departure from the initial proposals, the IASB has not adopted the SFAS 144 criteria on how to determine a discontinued operation, because we do not believe this would lead to better financial reporting.

EFRAG still believes that depreciation should only cease when an asset is retired from active use and is concerned that the new standard could lead to inappropriate accounting especially when an entity decides to dispose of a division. However, we also acknowledge that the new measurement requirements will often not involve a significant change from the requirements of recently revised IFRS. Further, we believe that the Board made the right decision not to retain its initial proposals regarding the allocation of an impairment loss across the long-lived assets of the group, although this implies a deviation from SFAS 144, but to maintain the approach of the revised IAS 36, which allocates the loss initially to any goodwill within the component of the entity that is discontinued. In this context, we believe that the IASB’s standard on impairment (IAS 36 *Impairment of Assets*) is superior to the US GAAP requirements.

As indicated in our October 2003 comment letter to the IASB, we find the introduction of the notion “component of an entity” not necessary because of the existing defined concept of “cash generating unit” though we accept that this matter does not change the substance of the accounting requirements. In general, EFRAG supports simply worded standards that are easy to understand.

Finally, we are concerned from a practical point of view about the removal of the limited IAS 27 *Consolidated and Separate Financial Statements* exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale, despite the Board’s efforts to accommodate our concerns by exempting companies from certain disclosure requirements and proposing the use of computational short cuts.

Having considered IFRS 5 and the above mentioned points EFRAG is on balance supportive of the new standard and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

- i. it is not contrary to the ‘true and fair principle’ set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and, accordingly, we recommend its adoption.

We should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Stig Enevoldsen  
EFRAG, Chairman