UNICE

THE VOICE OF BUSINESS IN EUROPE

22.7/8/1 18 May 2004

Mr Patrick Mommens
Project Manager
EFRAG
41 Avenue des Arts
1040 Brussels

Dear Mr Mommens,

RE: DRAFT EFRAG LETTER ON THE ADOPTION OF IFRS 5 "NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS"

In response to your consultation on the draft EFRAG letter regarding adoption of IFRS 5 as published by the IASB on 31 March 2004, UNICE would like to offer the following remarks.

UNICE concurs with the positive endorsement advice that is formulated in the draft letter. On balance, we are of the opinion that the proposed new standard meets the requirements of the Regulation of the European Parliament and of the Council on the application of international accounting standards. We concur with most of EFRAG's comments, some of which, in our view, nevertheless need to be more adequately stressed. We remain of the view that, although presenting assets held for sale separately improves the usefulness of financial information to users, the change of accounting requirements from the existing standards is not conducive of improvement. UNICE believes that EFRAG's letter should explain that lack of improvement more clearly.

Please find below a more detailed analysis of the comments which, in our view, need to be strengthened.

1. Depreciation ceasing when an asset is retired from active use

Not depreciating assets held for sale that are still in active use does not faithfully reflect the profitability of such assets. In those cases where a remaining excess of value in use over fair value less costs to sell is material, the impairment expense first, the depreciation charge next, should be separately accounted for and presented accordingly, all the more so when they happen to arise in different accounting periods. We agree with EFRAG that this accounting requirement will lead to inappropriate accounting especially when an entity decides to dispose of a division. Revised IAS 36 §21 acknowledges that when an asset is held for disposal, its recoverable amount is likely to be its fair value less costs to sell. It however allows for an appropriate accounting treatment whenever that likelihood does not verify. In our view, it is very important that accounting standards be based on principles that are applied with exercise of judgement. Accounting requirements should not be based, as reflected in IFRS 5 BC 32, on the assumptions of what the economic reality will always be. We believe that EFRAG should include such a statement in its enforcement advice letter.

2. Retention of the definition of IAS 35 for discontinued operations

On this account, EFRAG solely mentions that it is pleased with the outcome in the final standard and does not provide any information about the IASB's stated intentions of not retaining such a definition in the long run. EFRAG comments on the unnecessary definition of a "component of an entity", doing as if it was not known that the present solution is meant to be very temporary.
We believe that displaying the IASB's intent to adopt a significantly lower threshold to trigger the reporting of discontinued operations is valuable information and better reflects the outcome of the due process, which is not satisfactory, by contrast with what EFRAG has stated.

3. Removal of the exemption from consolidation

UNICE believes that EFRAG's comment on this issue is not strong enough to reflect the wrong decision made by the IASB. Although we agree that chasing exceptions is likely to lead to higher quality and more consistent accounting solutions, we believe that exceptions should however be considered or maintained whenever they are justified by heavy differences in the underlying economic reality. Also, we believe that the balance between benefit and cost should remain a pervasive constraint.

When an entity has been acquired and is immediately held for sale, the reporting entity is not going to exercise its effective control over the entity held for sale other than in view of selling its controlling interests. We therefore believe that reporting the shares held for sale at fair value would be a more appropriate reflection of the economic reality.

Moreover the computational short cuts mentioned do not really eliminate the reporting burden on preparers, that the consolidation requirement is not likely to benefit to users.

We hope that the above-mentioned concerns are taken into account and remain at your disposal should you need further clarification or background information.

Yours sincerely,

(original signed by)
Jérôme P. Chauvin
Director, Company Affairs Department