EFRAG
European Financial Reporting Advisory Group

DRAFT COMMENT LETTER
Comments should be submitted by 27 October 2010 to
Commentletters@efrag.org

XX October 2010

Robert Garnett, Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Garnett,

Re: IAS 36 *Impairment of Assets* – Calculation of value in use

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the IFRS Interpretations Committee's ('the Interpretations Committee') tentative decision not to proceed with the agenda item on a request for guidance to clarify whether an entity can use a dividend discount model (DDM) when calculating value in use (VIU) for the purpose of performing an impairment test under IAS 36 *Impairment of Assets* in the consolidated financial statements of a parent entity. The issue relates to a situation when a subsidiary of the parent entity operates in the financial sector and is considered to be a separate cash-generating unit (CGU).

This letter is submitted in EFRAG's capacity of contributing to the Interpretations Committee's due process. EFRAG addresses wordings for rejection published by the Interpretations Committee by exception, i.e. when European constituents express concern that they are expected to have a significant and undesirable effect in practice and EFRAG would share that concern after proper assessment of the wording for rejection. Such circumstances have just arisen with the Interpretations Committee issuing its tentative wording for rejection on the application of dividend discount models.

The rejection notice in respect to the issue specifies that '…calculations using DDMs would rarely be appropriate when calculating value in use of a CGU in consolidated financial statements.' The Interpretations Committee supported its tentative conclusion by explaining that it believes that the cash flows used to calculate value in use of a CGU in the consolidated financial statements may be different to the cash flows used to calculate value in use of an investment in the separate financial statements. It added that for example, the cash flows associated with liabilities are usually excluded from the value in use of a CGU. It concluded that the current principles in IAS 36 relating to the calculation of the VIU of CGU are clear.

In EFRAG's view, it is inappropriate for the Interpretations Committee to create, what appears to be, a rebuttable presumption in the wording for rejection by stating that 'using DDMs would rarely be appropriate'. In our view, the wording for rejection risks prohibiting in practice the use of a particular approach in IAS 36, even in those cases when the approach could be applied in a manner that is consistent with the principles in paragraphs 30 to 57 of IAS 36 for the calculation of VIU.

Therefore, we recommend the Interpretations Committee to remove the reference to 'rarely be appropriate' from the wording for rejection. In addition, we recommend that the Interpretations Committee amend the wording for rejection to clarify that a DDM can be used provided this is consistent with the requirements under IAS 36.

If you would like to discuss our comments further, please do not hesitate to contact Isabel Batista, Alessandro Turris or me.

Yours sincerely

Françoise Flores

EFRAG, Chairman