

14 April 2021

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

Tentative agenda decision – Costs Necessary to Sell Inventories (IAS 2)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the February 2021 Update of the tentative decision not to take onto the Committee's agenda the request for clarification about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories.

We do not agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda as we do not agree with the conclusion that has been reached in the agenda decision, both on technical and practical grounds.

From a technical perspective, we believe that it is reasonable to assert that the costs necessary to sell inventories should only include incremental costs. The Basis for Conclusions on IAS 36 sets out the rationale for only including incremental selling costs in the 'net selling price'. In particular, IAS 36:BCZ31-36 explain that this is consistent with the purpose of the impairment test which is to 'determine the net amount that an enterprise could recover from the sale of an asset'. We believe that the arguments presented in these paragraphs are equally relevant to the assessment of the net realisable value of inventories in IAS 2. Additionally, IAS 36:BCZ37-39 highlight the potential differences between the definition of net realisable value in IAS 2 and net selling price in IAS 36. The definition of costs to sell is not identified as a potential difference. In fact, IAS 36:BCZ39 explicitly states that in most cases net selling price and net realisable value will be similar.

From a practical perspective, in our view, the implementation of the approach presented in the agenda decision will likely be complex. In our experience, in general, entities use an incremental cost approach in estimating net realisable value. As such, systems may not be in place to apply an approach that requires an allocation of all costs necessary to make the sale. Potentially, a broad range of overhead costs would need to be considered as part of this allocation. If the IFRIC Committee maintains its conclusion, additional guidance would be required to understand which costs should be considered.

We believe that the estimated costs necessary to make the sale when determining the net realisable value of inventories **should be** limited to incremental costs. Therefore, in our view, an IFRIC Interpretation is required before what we believe to be a valid reading of the IFRS requirements is ruled out.

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

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Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole
Global IFRS Leader