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To: Iasb

Subject: Comment on ED 4: Disposal of Non-Current Assets andPresentation of Discounted Operations

Herewith, an attached comment on the above mentioned subject.

Thank you

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THE BANKING COUNCIL

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Dear Sir

Comments on ED 4: Disposal of Non-Current Assets and Presentation of Discounted Operations

We would like to thank the International Accounting Standards Board for the opportunity to comment on the Exposure Draft of disposal of non-current assets and presentation of discontinued operations. Our main concern relates to the removal of the exemption from consolidation for subsidiaries acquired and held for resale, although we have certain reservation relating to the rest of the Exposure Draft as noted below.

Removal of exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale

In terms of the current South African statement on consolidated financial statements (AC132.11a), subsidiaries should be excluded from consolidation when control is intended to be temporary due to the subsidiary being acquired and held exclusively with a view to its subsequent disposal in the near future.

In terms of this new Exposure Draft the assets and liabilities of these subsidiaries will have to be consolidated, will be classified as non-current assets to be disposed of, and will be accounted for at the lower of:

- the carrying amount of the assets, or
- the fair value of the assets less the cost of sale.

The individual assets and liabilities of subsidiaries that will be disposed of will now have to be valued and not the investment in the entity as a going concern. This will also be very impractical as the value of the individual assets and liabilities of subsidiaries will not equal the value of the investment in the entity as a going concern.

We propose that that this exemption should not be removed from IAS 27, and also not removed from IAS 39. It should, however remain in the scope of IAS 39 as a financial instrument if control is intended to be temporary.

The I problem with this specific section of ED 4, is that this will force a bank to consolidate all the different types of private equity investments of subsidiaries held for disposal, as well as those entities where control is obtained through credit default and will be sold as going concerns. The treatment in venture capital entities where subsidiaries are bought and sold

on a regular basis is specifically of concern. We strongly believe that by consolidating the individual entities that will be sold in the short term, the substance of the transaction, which is the realisation of a financial asset, will not be correctly reflected. The assets and liabilities of these entities will not be realised separately but the whole entity will be sold as a going concern. The nature of the transaction is therefore the sale of a financial asset and not the realisation of assets and liabilities.

Measurement of non-current assets classified as held for sale

The Exposure Draft proposes that non-current assets classified as held for sale should be measured at the lower of carrying amount and fair value, less costs to sell. It also proposes that non-current assets classified as held for sale should not be depreciated. (ED 4 par BC 18). We agree with the counter-argument (ED 4 par BC 21) that although classified as held for sale, the asset is still being used in operations, and hence cessation of depreciation is inconsistent with the basic principle that the cost of an asset should be allocated over the period during which benefits are obtained from its use. Because value in use will differ from fair value less costs to sell in the extent of net cash flows expected to arise before the sale, we feel that by not depreciating the cost of an asset, it is not technically allocated over the period during which benefits are obtained from its use.

Disposal groups

According to ED 4 "Disposal of Non-current Assets and Presentation of Discontinued Operations" Appendix A the definition of a disposal group is: *A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated."* It is unclear why the exposure draft excludes goodwill out of the scope of the exposure draft (BC8 (a)), but according to ED 4 Appendix A, the definition of a disposal group clearly includes goodwill. This will result in accounting for a subsidiary held for resale at the fair value of the underlying assets and not the fair value of the entity as a going concern.

In addition, where a subsidiary (not acquired and held with a view to its disposal in the near future) will be sold as a going concern, the goodwill relating to this entity should be remeasured at the value expected to be received in excess of the value of the underlying net assets measured in terms of the Exposure Draft. This will ensure that the whole subsidiary is measured at the expected recoverable amount. The current Exposure Draft does not provide for the correct measurement of an entity sold as a going concern as the underlying assets are remeasured but not the subsidiary as a going concern.

Newly acquired assets

We agree that measurement at fair value less costs to sell on initial recognition is the most appropriate way of measurement, although it is inconsistent with the measurement of assets held for sale in other statements.

Revalued assets

The Exposure Draft proposes that, for revalued assets, impairment losses arising from the write-down of assets (or disposal groups) to fair value less costs to sell (and subsequent gains) should be treated as revaluation decreases (and revaluation increases) in accordance with the standard under which the assets were revalued, except to the extent that the losses (or gains) arise from the recognition of costs to sell. Costs to sell and any subsequent changes in costs to sell are proposed to be recognised in the income statement. (ED 4 paragraphs B6-B8 of Appendix B.) It will be unpractical to perform this

process on every asset. It is also not clear from the Exposure Draft how transaction costs relating to the sale of a subsidiary as a going concern should be treated. Will it be allocated to individual assets or treated as a single amount against the net assets of the subsidiary?

Presentation of non-current assets held for sale

We agree that non-current assets classified as held for sale, and assets and liabilities in a disposal group classified as held for sale, should be presented separately in the balance sheet and that the assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single amount.

Presentation of a discontinued operation

The Exposure Draft proposes that the revenue, expenses, pre-tax profit or loss of discontinued operations and any related tax expense should be presented separately on the face of the income statement (ED 4 paragraph 24). We are of the opinion that it will be more practical to present a single amount, profit after tax, for discontinued operations on the face of the income statement with a breakdown into the above components given in the notes.

Conclusion

Our most important concern is with question 6: "Removal of exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale". We propose that that this exemption should not be removed from IAS 27, and also not removed from IAS 39. It should remain in the scope of IAS 39 as a financial instrument if control is intended to be temporary.

Yours faithfully

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