

October 24, 2003

International Accounting Standards Board
30 Cannon Street,
London EC4M 6XH,
United Kingdom

Dear Sirs,

Exposure Draft 4 Disposal of non-current assets and Presentation of discontinued operations

Thank you for giving me the opportunity of commenting on the exposure draft 4 Disposal of non-current assets and presentation of discontinued operations. I'm very pleased to have this chance. Followings are my response to your invitation to comment.

Question 1: Classification of non-current assets held for sale

Yes. I think the separate classification and presentation of non-current assets held for sale enable additional information to be provided to users if all criteria described in par. B1 of appendix B.

Question2: Measurement of non-current assets classified as held for sale

No. The ED 4 proposes non-current assets classified as held for sale shall be measured at the lower of its carrying amount and fair value less costs to sell. However I think it is inconsistent that recognition point of costs to sell is different either its carrying amount or fair value less costs to sell. And par. 10 proposes clearly costs to sell shall be measured at present value in the case sale is expected to occur beyond one year. While, ED 4 does not make clear about the treatment of fair value beyond one year or if interest component is significant. Does "fair value" in par. 8 of ED 4 include the meaning of discounting implicitly?

And I think non-current assets classified as held for sale that is measured at carrying amount shall be depreciated.

Question3: Disposal groups

Generally Yes other than next thing. If disposal groups contain liabilities to be disposed of together in a single transaction, are they classified as held for trading in accordance with par. 89A in the proposed IAS 39 despite group assets are measured at whichever carrying amount or fair value? In

addition, if liabilities in groups are hedged with derivatives, should its derivatives include in disposal groups?

Question4: Newly acquired assets

Generally No except for the case of business combinations. I think IASB should illustrate and limit the case that is measured at fair value less costs to sell on initial recognition other than business combinations. In case of business combinations, I agree with measurement at fair value less costs to sell on initial recognition if the criteria are met.

Question5: Revalued assets

Yes.

Question6: Removal of the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale

Generally Yes. I also think all subsidiaries should be consolidated. Therefore I agree with the removal of the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale. However I think IASB should clarify the treatment about its subsidiaries on consolidation. In other words, can parent company classify only non-current assets of subsidiaries as held for sale on consolidation or as advanced method, can parent company recognize gain or loss on the sale of subsidiaries shares in the consolidated income statement if all criteria are met?

Question7: Presentation of non-current assets held for sale

Yes. I agree with separate presentation in the balance sheet. However I think IASB should illustrate and specify where it is presented in the balance sheet. Is it presented as one line in current section, non-current section or independent item between current and non-current section if the entity choose the current and non-current classifications on the face of the balance sheet in accordance with par. 53 or 49 in IAS 1 or draft IAS 1, respectively?

Question8: Classification of discontinued operation

Generally Yes. I think the definition of discontinued operation in existing IAS 35 is a little bit narrow and limited. The entity might dispose of not as a whole but significant part of major line of business or geographical area of its operations. And I also think the unit of discontinued operations for presentation should be larger than the unit of impairment of assets. Therefore I agree with the thought of IASB in ED 4 basically. However the definition of discontinued operation in ED 4 might be wide for presenting in income statement. I feel IASB should discuss the additional criteria to classify the discontinued operation in addition to par. 23 in ED 4 from a view of enabling users of

financial statement to evaluate the entity's ability of generating cash flow and make an appropriate decision.

Question9: Presentation of a discontinued operation

I prefer the approach the revenue, expenses, pre-tax profit or loss of discontinued operations and any related tax expense should be presented separately on the face of income statement. As I mentioned in Question8, discontinued operation should be presented from the view of users of financial statements. Since I believe presentation of discontinued operation is also very useful for the view of comparability and the unit of discontinued operations for presentation should be larger than the unit of impairment of assets, the revenue, expenses, pre-tax profit or loss of discontinued operations and any related tax expense should be presented separately on the face of income statement rather than only presentation of single amount, profit after tax, on the face of income statement.

I hope that my comment will be helpful for your discussion on ED 4 Disposal of non-current assets and presentation of discontinued operations.

If you have any questions on this letter, please feel free to contact me.

Yours sincerely,

Mr. Masahiro Hoshino