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Ref T/701/004

Dear Ms McGeachin

ED4: Disposal of Non-Current Assets and Presentation of Discontinued Operations

We are not proposing to respond to all the specific questions raised in ED4 but we would like to comment on three issues which give rise to concern.

Our major concern is paragraph 23 which significantly widens the definition of "discontinued operation". This is likely to lead to more frequent reporting of discontinued operations and in some cases of relatively small parts of an entity that are discontinued. The usefulness to accounts users of providing the additional information required by ED4 is at least questionable. We think IASB should retain the existing definition in IAS35 that restricts discontinuing operations to components of an enterprise that represent a separate major line of business or geographical area of operation.

There is an issue over the proposal in paragraph C3 of Appendix C to delete paragraph 13 of IAS 27. Some life funds inject capital into start-up companies that may take their interests to in excess of 50 per cent of the issued share capital, but without any intention of retaining these holdings on an ongoing basis. In these circumstances the current exemption from consolidation in paragraph 13 (a) of IAS 27 should continue to apply, and these investment should be treated instead as assets held for sale.

Where fair value less costs to sell fall short of carrying amount, paragraph 8 will require the immediate recognition of a loss when assets are reclassified as held for sale. We do not consider that redesignation of assets in this way is sufficient justification to recognise this loss immediately. The loss should only be recognised when it crystallises at the time the sale occurs.

Consistent with this, we disagree with the proposal in paragraph 16 that an entity should not depreciate a non-current asset while it is classified as held for sale or part of a disposal group classified as held for sale. While these assets are continuing to be used by the undertaking, we believe that depreciation should continue to be applied.

Yours sincerely

D E Wright
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