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Jenny Carter,
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24 October 2003

Dear Ms Carter,

FRED 32

Thank you for the opportunity to comment on the above document. Our primary interest is as users of accounts and as an accountancy firm specialising in financial reporting issues. Should you wish to discuss this submission please contact Stuart Hastie.

We have often argued that the piecemeal importing of odd standards from one accounting regime into another does not work and FRED 32 reinforces our belief. We had also hoped that the way ahead for international accounting was to be principled based standards, either from original thought, or from best existing practice in the world. Instead we see FRED 32 as a poorly expressed, long list of arbitrary rules imported from the USA without adequate explanation or justification. We note that IASB cannot find good reasons for many proposals and in the Basis for Conclusions just reverts to in the cause of international harmonisation. This really translates as IASB is too busy to think about the issues, so it will just copy the Americans. ASB should be pressing IASB to rewrite this document with a clarity that would allow the deletion of the illustrative examples.

We set out in Appendix 1 our response to the questions posed by IASB and ASB. We set out in Appendix 2 other matters of concern arising from the FRED.

Yours faithfully,

Disclosure Solutions Limited

APPENDIX 1

RESPONSES TO THE INVITATION TO COMMENT

ASB 1

No, we do not want the waste of resources of a UK standard with gold plating and local tailoring on top of an IFRS. The eventual IFRS should be adopted as the UK standard verbatim on the later of the UK Companies Act being amended to remove all legal obstacles to the IFRS being applied for all sizes of company and the final IFRS being published.

IASB 1

We agree that the separate disclosure of assets held for resale is useful information for users. However, we feel that information is best displayed by deeming such assets to be current assets (which is what would be achieved if the UK Companies Act was followed).

IASB 2

We agree that if assets are held for resale and their previous carrying amount was in excess of their net realisable value then they should be written down to net realisable value. However, we disagree with the failure to depreciate assets whilst they are in operation just because they are awaiting a disposal (that may or may not happen). Assets should always be depreciated whilst they are in use and operating profits should not be overstated by omitting that expense or by rolling it into a disposal profit or loss.

IASB 3

This is appropriate.

IASB 4

We agree with fair value less costs to sell in those circumstances.

IASB 5

This is appropriate.

IASB 6

We support the removal of the consolidation exemption.

IASB 7

We support the ban on offsetting assets and liabilities. However, we do not consider it necessary that the face of the balance sheet be cluttered with separate presentation of assets for disposal and consider a breakdown in the notes to be adequate. However, we accept it will be necessary on the face of the balance sheet should you be foolish enough to pursue your plan to hold assets for sale outside the current assets part of the balance sheet.

IASB 8

We would prefer IASB to follow the UK and make a general authoritative statement that its standards need not be applied to immaterial items. This would allow entities the choice of whether to restate for immaterial discontinued operations, which is what FRED 32 will achieve in the UK. It is silly that immaterial restatements will be required under IFRS but not under UK FRS. However the international convergence of the treatment of immaterial items is not a worthwhile objective.

In our opinion discontinued operations should only cover operations that were actually discontinued at the balance sheet date. There should be a separate category of operations to be discontinued after the balance sheet date. Entities should be required to present an additional pro forma column for the balance sheet, that adjusts it for the effects of planned discontinuances.

IASB 9

IASB should wait until it gets agreement to an IFRS on reporting financial performance before it specifies any rules for disclosure on the face of the income statement. However, if the issue is to be dealt with now, we would ban the recreation of an extraordinary item for the after tax effect of discontinued operations and those to be discontinued. Proper stewardship accounting demands that turnover and expenses should be inclusive of all the operations under the control of the entity for the relevant parts of the year. Splitting them into continuing and discontinued operations should be required, but only in the notes.

APPENDIX 2

FRED 32 OTHER MATTERS

Non-current assets held for sale

We draw to your attention the definitions contained in s262 of the Companies Act 1985 that fixed assets are assets intended for use on a continuing basis in the company's activities and that all other assets are current assets. Therefore by definition in UK law, there is no such thing as a non-current asset held for resale. The affected assets are, by UK legal definition, current assets and have to be displayed as such. They are transferred out of fixed assets when they are no longer intended for use on a continuing basis. Once again this demonstrates the folly of keeping UK FRSs and trying to internationalise them in bits, that do not fit with the rest of the regulatory framework.

The current asset definition in the Appendix to FRED 32 needs rewriting to make clear whether an asset is only current if all three conditions are met i.e. a plus b plus c or whether it is sufficient to meet any of conditions a or b or c.

Profit on disposal of assets

There are assets outside the scope of FRED 32, so UK accounting will need a rule on the calculation of the profit or loss on their disposal. We therefore propose that para 21 of FRS 3 be retained (instead of being deleted) but is amended so it is only applied to items assets outside the scope of whatever UK FRS implements FRED 32. Once again this demonstrates the folly of keeping UK FRSs and trying to internationalise them in bits.

Expenses of discontinued operation

Please make clear whether the intention of para 24a is one figure for the expenses of discontinued operations or many figures isolating the discontinued operations element for all pre-tax expenses presented in the accounts.

Cash flow

In the UK FRS 1 has more than the three operating, investing and finance sections in its international counterpart. Therefore the separate disclosure of discontinued operation cash flows needs to be over more than the three headings in para 24 c. In particular we recommend that disclosure is expanded to include the discontinued element (if any) of dividends from joint ventures and associates, returns on investment and servicing of finance and management of liquid resources. Again it is silly to keep UK FRSs and trying to internationalise them in bits.