24 October 2003

SECURITIES INSTITUTE

Ms Anne McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear Ms McGeachin

IASB ED 4: *Disposal of Non-Current Assets and Presentation of Discontinued Operations*

The Securities Institute of Australia, through its Company Reporting Subcommittee, is pleased to contribute comments to the IASB on Exposure Draft ED 4.

The Institute supports the strategy for harmonisation of international accounting standards in principle and generally supports the IASB/FASB convergence program to improve comparability of financial statements across markets. We commend the IASB on progress made to date on the short-term convergence initiative, but highlight the critical importance of delivering the best possible standards through the convergence process.

The Institute agrees with the IASB adopting a two-phase approach to converging with SFAS 144: *Accounting for the Impairment or Disposal of Long-lived Assets,* in particular with deferring to a later date consideration of IFRS/US GAAP differences related to impairment of long-lived assets to be held and used.

If you have any queries or wish to discuss any matter further, please contact either myself on (61 3) 9679 1427 or Julie Burke, National Policy Manager at the Institute on (61 2) 8248 7593 or by email (j.burke@securities.edu.au).

Yours sincerely

Craig Drummond FSIA

Chairman, Company Reporting Subcommittee

Specific issues raised for comment by the IASB

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

The Exposure Draft proposes that non-current assets should be classified as assets held for sale if specified criteria are met. (See paragraphs 4 and 5 and Appendix B.) Assets so classified may be required to be measured differently (see question 2) and presented separately (see question 7) from other non-current assets. Does the separate classification of non-current assets held for sale enable additional information to be provided to users? Do you agree with the classification being made? If not, why not?

The Institute agrees with the proposed classification of non-current assets held for sale, the classification criteria and the measurement and presentation requirements set out in ED 4.

Question 2 – 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. (See paragraphs 8-16.) Is this measurement basis appropriate for non-current assets classified as held for sale? If not, why not?

The Institute considers the proposed measurement basis as an appropriate method for non-current assets held for sale. We agree with the ED 4 proposal to separately classify non-current assets held for sale under the specified criteria, as this method would improve the information available to users in assessing the timing and amount of future cash flows.

Question 3 – Disposal groups

The Exposure Draft proposes that assets and liabilities that are to be disposed of together in a single transaction should be treated as a disposal group. The measurement basis proposed for non-current assets classified as held for sale would be applied to the group as a whole and any resulting impairment loss would reduce the carrying amount of the non-current assets in the disposal group. (See paragraph 3.) Is this appropriate? If not, why not?

The Institute considers the proposed disposal group treatment appropriate.

Question 4 – Newly acquired assets

The Exposure Draft proposes that newly acquired assets that meet the criteria to be classified as held for sale should be measured at fair value less costs to sell on initial recognition (see paragraph 9). It therefore proposes a consequential amendment to [draft] IFRS X Business Combinations (see paragraph C13 of Appendix C) so that non-current assets acquired as part of a business combination that meet the criteria to be classified as held for sale would be measured at fair value less costs to sell on initial recognition, rather than at fair value as currently required. Is measurement at fair value less costs to sell on initial recognition appropriate? If not, why not?

The Institute agrees that the measurement at fair value less costs to sell on initial recognition is appropriate in the case of newly acquired assets classified as held for sale. We support the proposed consequential amendment to the draft IFRS on Business Combinations as a means of ensuring a consistent measurement method for non-current assets that meet the held for sale classification criteria, irrespective of how they were acquired.

Question 5 – 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. (See paragraphs B6-B8 of Appendix B.) Is this appropriate? If not, why not?

The Institute agrees that on revaluation of assets, a consistent measurement basis needs to be adopted for impairment losses arising from write-downs of assets or disposal groups. We support the proposed recognition in the income statement of costs to sell and any subsequent changes in such costs.

Question 6 – Removal of the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale

The Exposure Draft proposes a consequential amendment to draft IAS 27: Consolidated and Separate Financial Statements to remove the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale. (See paragraph C3 of Appendix C and paragraphs BC39 and BC40 of the Basis for Conclusions.)

Is the removal of this exemption appropriate? If not, why not?

The Institute regards the proposed removal of the subsidiaries exemption as appropriate.

Question 7 – Presentation of non-current assets held for sale
The Exposure Draft proposes 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. The assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single amount. (See paragraph 28.) Is this presentation appropriate? If not, why not?

The Institute supports the proposed separate presentation of non-current assets held for sale and assets and liabilities in a disposal group classified as held for sale. We support the ED 4 proposal that the assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single amount.

Question 8 – Classification as a discontinued operation
The Exposure Draft proposes that a discontinued operation should be a component of an entity that either has been disposed of, or is classified as held for sale, and:

(a) the operations and cash flows of that component have been, or will be, eliminated from the ongoing operations of the entity as a result of its disposal; and

(b) the entity will have no significant continuing involvement in that component after its disposal.

A component of an entity may be a cash-generating unit or any group of cash-generating units. (See paragraphs 22 and 23.) These criteria could lead to relatively small units being classified as discontinued (subject to their materiality). Some entities may also regularly sell (and buy) operations that would be classified as discontinued operations, resulting in discontinued operations being presented every year. This, in turn, will lead to the comparatives being restated every year. Do you agree that this is appropriate?

The Institute agrees with the proposed classification criteria, which achieves substantial convergence with the FASB's SFAS 144 requirements relating to discontinued operations.

Would you prefer an amendment to the criteria? For example adding a requirement adapted from IAS 35: Discontinuing Operations that a discontinued operation shall be a separate major line of business or geographical area of operations, even though this would not converge with SFAS 144: Accounting for the Impairment or Disposal of Long-Lived Assets.

Yes.

How important is convergence in your preference?

Convergence of accounting standards is an important practical consideration for Australian reporting entities that increasingly operate in a global market, and also represents a crucial step on the path to a single set of universally applicable accounting standards. In spite of the considerable implementation, adjustment and interpretation challenges for report preparers, users, auditors and analysts alike, the Institute considers the uniform application of international accounting treatments to be of real benefit to all capital markets in the long term. However, the convergence process must deliver the highest quality standards and not just result in compromise between existing principles-based IAS and rules-based FASB standards.

Are the other aspects of these criteria for classification as a discontinued operation (for example, the elimination of the operations and cash flows) appropriate? If not, what criteria would you suggest, and why?

No.

Question 9 – 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. (See paragraph 24.) An alternative approach would be 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. Which approach do you prefer, and why?

We believe that the presentation format chosen should be relevant to the needs of report users and be consistent with the US standard, while still facilitating the comparability and transparency of financial statements.

The Institute prefers the alternative simpler presentation option of the single amount, profit after tax item for discontinued operations to be presented on the face of the income statement, with the breakdown into components information detailed in the notes.

Preference for this second approach comes from trying to avoid the "clutter" that would impact the Income Statement if separate line-by-line disclosure for each component of revenue, expenses, pre-tax profit and related tax expense were required. To present this detailed information on the face of the P&L may unnecessarily confuse the issue for users. Also single line disclosure, with detail in the notes, accords with the SFAS 144 requirement.