Financial Reporting Council (Russia)
IAS Committee, Institute of Professional Accountants of Russia

Comments on the Exposure Draft " DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS"

General observations

1) The proposed ED looks unreasonably complicated - bearing in mind that the subject is not as controversial as e.g. financial instruments -whilst the benefits from its implementation are not obvious.
2) The ED's terminology is kind of confusing for IAS financials users and preparers (e.g. *non-current assets* with a carrying amount to be recovered through sale within 12 months).
3) Accounting for non-current assets to be sold and for discontinued operations is not a priority nowadays, these issues are successfully solved under existing IASs, so it would be reasonable to postpone the project till more opportune moment.

More specific comments please find below.

Question	Comments
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 proposed classification definitely enables useful additional information to be provided to users. At the same time classification criteria in Appendix B are, in our opinion, too subjective, and can cause difficulties when classifying assets and conducting audit of the classification adopted. The suggestion is to use, instead of the criteria in App. B, criteria similar to the conditions of constructive obligation to restructure in IAS 37.72, with regard to the detailed formal plan. The proposed definition of the 'non-current assets held for sale' is also questionable – the fact that those assets are held for sale, and required by the ED 12-months term to settle the sale predetermine short-term nature of those assets. Thereby the term "long-lived assets' seems to be more appropriate for characterizing those assets.

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?	We support, in general, the proposed measurement basis for non-current assets classified as 'held for sale', and would like to draw the IASB's attention to two aspects. 1. ED 1.8 proposes the general measurement basis for non-current assets classified as 'held for sale' as the lower of carrying amount and fair value less costs to sell. As we understand this general basis in the case when the fair value less costs to sell goes down the asset is measured at this fair value; when the fair value goes up the asset is measured at the (previous) carrying amount. At the same time ED 1.12 (b) provides for recognition of a gain for increase in fair value less cost to sell for assets which previously (before classification as 'held for sale') were not revalued and for which an impairment loss was recognized. We view this provision as contradictory with the general measurement basis since in the case of increase in fair value less cost to sell the asset is measured not at the lower value which is carrying amount but at the higher – fair value less cost to sell. We believe that there is a need to clarify how the general basis applies in this case and what should be 'carrying amount' for assets classified as 'held for sale' if those assets were previously impaired and an impairment loss was recognized. 2. ED 1.16 says that a non-current asset classified as 'held for sale' is not to be depreciated or amortized. But this asset may continue to be used even if its carrying amount is planned to be recovered principally through a sale. We believe that this asset should be depreciated (or amortized) if it is still in use, otherwise cost of sales and other costs of the entity will be misrepresented.

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?	We agree with the approach proposed.
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?	We do not support the proposed measurement basis for newly acquired non-current assets classified as 'held for sale'. We believe that newly acquired assets should be measured according to the other applicable IASs (IAS 2 etc.) to provide for consistency in measurement basis applied to similar assets and to avoid incomparability of values attached to similar assets. Besides, our opinion is that newly acquired assets should not be classified as 'non-current' if they are planned to be sold within 12 months.

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?	We do not support the proposal to treat impairment losses arising from the write-down of assets (or disposal groups) to fair value less costs to sell (and subsequent gains) as revaluation decreases (and revaluation increases) in accordance with the standard under which the assets were revalued. We suggest to stick to the uniform treatment of impairment losses for all such assets and disposal groups, and to recognize all such losses in the income statement to avoid confusion and incomparability of information presented in financial statements concerning similar events (impairment of assets of the same class).
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?	We agree with the proposed exemption.

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?	We agree with the proposed approach to present non-current assets held for sale.

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? 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*. How important is convergence in your preference? 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?	*One specific comment:* 'continuing involvement in that component' needs clarification. E.g. there is the same term in previously published ED on improving IAS 39 with respect to the derecognition principle. One of the examples of such 'continuing involvement' is compensation based on the performance of the transferred asset to be paid (for example, if the transferor provides a guarantee). May there be a similar treatment for a discontinued operation (e.g. warranties to a purchaser of the asset)? What other examples of 'continuing involvement' can be given? *General observation:* Treatment of discontinuing operations in IAS 35 is more logical and, thus, preferable. Convergence with US GAAP is necessary but it is not obviously necessary in this particular case of discontinuing/discontinued operations.

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?	Both approaches are possible, and both have minuses and pluses. We can not elect one definitely preferable approach.

Question 10 – Completing the initial accounting for a business combination and subsequent adjustments to that accounting The Exposure Draft proposes that: (a) if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination occurs because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer should account for the combination using those provisional values. Any adjustment to those values as a result of completing the initial accounting is to be recognised within twelve months of the acquisition date (see proposed paragraphs 60 and 61 and paragraphs BC123-BC126 of the Basis for Conclusions). Is twelve months from the acquisition date sufficient time for completing the accounting for a business combination? If not, what period would be sufficient, and why? (b) with some exceptions carried forward as an interim measure from IAS 22, adjustments to the initial accounting for a business combination after that accounting is complete should be recognised only to correct an error (see proposed paragraphs 62 and 63 and paragraphs BC127-BC132 of the Basis for Conclusions). Is this appropriate? If not, under what other circumstances should the initial accounting be amended after it is complete, and why?	The FRC supports the proposed procedure for completing the initial accounting for a business combination. There is a need in limiting the time period for this procedure, and proposed twelve months is quite appropriate. Consequently, all the adjustments made after the deadline for this procedure can not be treated other than as corrections of errors.

In addition to the issues addressed above we would like to address to the Board the issue of determining the cost of acquisition when a business combination is achieved in stages. This issue was not discussed in the FRC due process, but some FRC members expressed their concerns regarding the way this issue is addressed in the ED.

Business Combination achieved in stages - cost of acquisition (Paragraphs 57-59)

Paragraph 59 of ED 3 determines the accounting treatment of a business combination which have previously qualified as an investment in an associate and was accounted for under IAS 28, Accounting for Investments in Associates. However, the proposed standard does not discuss accounting for a business combination which did not previously qualify as an investment in associate because either the size, or the nature, of the initial equity investment did not give rise to the ability to exercise significant influence over the operating and financial policies of the investee. Such investments are within the scope of IAS 39 which would generally require their remeasurement to fair value after initial recognition. In an example called ‘Business combination achieved in stages’ included in Draft illustrative examples section of ED 3, remeasurement gain previously recognized by the investor in its income statement is reversed in the period of acquisition to adjust the carrying amount of the investment immediately before the acquisition back to the original cost.

Some FRC members are not comfortable with this approach since the proposed reversal of the previously recognized remeasurement gains and losses in the period of a business combination is not consistent with fair value model. In addition they see no need in such an artificial way of forming goodwill, or income (negative goodwill, under existing IAS 22), in a case of previously recognized losses from fair value changes.

Accordingly, some FRC members doubt appropriateness of the proposed model for determining cost of acquisition in a business combination achieved in stages. Their recommendations with regard to the issue in question are as follows:

First, the guidance in respect of accounting for a business combination should be included in the main body of the standard.

Second, it seems more reasonable, and consistent with fair value model, to determine the cost of the investment for purposes of the new business combinations standard as the fair value under IAS 39 at the date of change in classification plus the cost of the investment which triggers the business combination. Additionally, such successive share purchases should not be treated separately for the purposes of determining the fair value of the identifiable assets and liabilities acquired, and goodwill. As the fair value of the initial investment has already been adjusted for in the ‘deemed cost’, the fair value and goodwill calculation should be performed as at the date of the latest exchange.