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

23 October 2003

Dear Ms McGeachin,

British Sky Broadcasting Group plc ("BSkyB" or "the Group"), as a UK Listed group, will be required to prepare its financial statements in accordance with International Accounting Standards for accounting periods beginning on or after 1 January 2005. BSkyB welcomes the opportunity to comment on the Exposure draft "Disposal of non-current assets and presentation of discontinued operations".

BSkyB requests that the IASB treats its comments on the Exposure Draft and responses to the questions posed by the IASB as confidential. The Group's responses to the questions posed in the consultation document are as follows:

IASB 1 Non-current assets should be classified as assets held for sale if specified criteria are met (Appendix B, paragraph 4 and 5)-
Assets so classified may be required to be measured differently and presented separately from other non-current assets.
(a) Does the separate classification of non-current assets held for sale enable additional information to be provided to users?
(b) Do you agree with classification being made?

(a) Yes. However we do not feel that this is necessary as there doesn't appear to be any significant demand from users and this extra classification will be a further administrative burden on companies.
(b) No. A long list of criteria will lead to more subjectivity and will therefore lead to greater variation between companies' financial statements, and greater complexity of the financial statements.

IASB 2 Non-current assets held for sale should be measured at the lower of carrying amount and fair value less costs to sell and should not be depreciated (paragraphs 8-16)
Is this measurement basis appropriate for non-current assets classified as held for sale?

No. We believe that the majority of non-current assets do not have a readily attainable market value and therefore it would be an administrative burden for a business to have to try and determine the fair value of non-current assets held for sale at each Balance Sheet date. We therefore believe they should be held at depreciated cost until sale. In addition to this, where a business continues to use a non-current asset held for resale, the asset should continue to be depreciated until it is sold. This is because the business would continue to be getting economic benefit from the use of that asset.

IASB 3 Assets and liabilities disposed of together should be treated as a disposal group (paragraph 3)

The measurement basis proposed for non-current assets classified as held for sale would be applied to the group as whole and any resulting impairment loss would reduce the carrying value of the non-current assets in the disposal group. Is this appropriate?

No. We believe that if it is possible to determine a fair value for a disposal group then it would be possible to determine fair value for the assets within it, hence it should be possible to allocate the impairment loss to the assets which they relate. We do not understand why the impairment of a current asset should be allocated to a non-current asset in the same disposal group.

IASB 4 Amendment to IFRS X Business Combinations

The Exposure Draft proposes a consequential amendment to IFRS X Business Combinations 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 fair value as currently required. Is measurement at fair value less costs to sell on initial recognition appropriate?

Yes. If a new category of non-current assets is introduced, which is to be valued at fair value less costs to sell, it appears appropriate that such assets acquired as part of business combinations are also measured in this way. The treatment of acquired assets in this way reflects the true value of the acquired assets to the business, however, “costs to sell” would be difficult to quantify and would introduce a high degree of subjectivity into the valuation.

IASB 5 Impairment of revalued assets

The Exposure Draft proposes that for revalued assets the impairment loss arising from the writedown of assets to fair value less costs to sell should be treated as revaluation decreases in accordance with the standard under which these assets were revalued, except to the extent that the losses 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. Is this appropriate?

Yes, this appears reasonable as costs to sell are not seen as a reversal of a previous revaluation and are a consumption of economic benefit.

IASB 6 Remove exemption from consolidation

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. Is removal of this exemption appropriate?

Yes, if a new category of assets held for disposal is introduced it appears logical that subsidiaries held for sale should be consolidated and shown immediately within discontinued operations if the criteria are met, so that they are consistent with other disposal groups held for resale and disclosed as such in the financial statements. We believe that the assets should be held in one line and not shown line by line, to emphasise the fact that, these assets are separate from the core business.

IASB 7 Separate 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 should not be offset and presented as a single amount. Is this presentation appropriate?

No, if the assets and liabilities are to be disposed of and the disposal group is valued at fair value less disposal costs, it seems reasonable that the entity should have the choice of disclosing assets and liabilities separately or as a single item. For the disposal group to be disclosed separately a number of criteria must have been met, ensuring that the disposal is probable, hence it is not necessary to disclose the groups assets and liabilities separately. Separate presentation would not provide any additional useful information for readers of the accounts, as these assets will not be used in the ongoing business.

IASB 8 Definition of a discontinued operation

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

(i) the operations and cash flows of that component have been, or will be, eliminated from the ongoing operation.
(ii) the entity will have no significant continuing involvement in that component after its disposal.

These criteria could lead to relatively small units being classified as discontinued (subject to their materiality). Some entities could regularly sell (and buy) operations that would be classified as discontinued operations, resulting in discontinued operations being reported every year. This in turn would lead to comparatives being restated every year.

(a) Do you agree that this is appropriate?

(b) Would you prefer an amendment to the criteria to be made, 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 it would not converge with SFAS 144 Accounting for the Impairment or Disposal of Long Lived Assets. How important is convergence in your opinion?

(c) *Are the other aspects of the 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?*

(a) No, it does not appear practical that relatively small units would be required to be classified as discontinued if the financial statements would not be materially effected by the omission of such classification. We believe that the materiality condition in FRS 3 should be retained in FRED 32/ED 4.

(b) Although, we support the IASB's programme of convergence with the FASB, we consider that it is essential that the UK generally accepted accounting standards continues to include the principles of materiality as established in the Statement of Principles. We feel therefore that an amendment to the criteria should be made, as appropriateness in this respect is more important than consistency.

(c) We are concerned that "a significant continuing involvement" is not clearly defined. An example of where this may cause inconsistency is where a business owns two similar subsidiaries (A and B) that it intends to sell after the year end. The business will have no further involvement with subsidiary A, but will retain an investment in B and also continue to act as an agent on its behalf. Under FRED 32/ED4 this may mean that the criteria for a subsidiary to be classified as discontinued would be met for A but not B and therefore B's results would continue to be included with the business until it is sold, whereas A's would be classified as discontinued, which appears to be inconsistent with the substance of the intention regarding both entities.

IASB 9 Presentation of profit after tax

The Exposure Draft proposes that the revenue, expenses, pre-tax profit or loss on discontinued operations and any related tax expenses should be presented separately on the face of the income statement. 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 would you prefer?

It seems reasonable that the entity should have the choice of disclosing the revenues and expenses of a component separately on the face of the income statement or as a single amount, depending on how significant the component is to the user of the accounts.

If you have any questions regarding our comments, please do not hesitate to contact me.

Yours sincerely,

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