FAR

FAR is the institute for the accountancy profession in Sweden

International Accounting Standards Board
Attn.: Anne McGeachin
30 Cannon Street
London EC4M 6XH
United Kingdom

24 October 2003

Dear Ms McGeachin,

Exposure Draft ED 4, *Disposal of Non-current Assets and Presentation of Discontinued Operations*

In response to your request for comments, FAR has the following comments on the Exposure Draft ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations.

General comments
In our opinion ED 4 should be deferred and reconsidered.

IAS 35, Discontinuing Operations, is a workable and useful standard. It is quite new, and we question the need for its withdrawal. Since there is little time left to implement standards that will be mandatory from 2005, changes in existing IAS should only be made where there is a serious defect to be dealt with. Although we support the principle of convergence, we do not believe that ED 4 is beneficial to that process. ED 4 does not achieve full convergence. It is primarily rule based, and the change from discontinu*ing* to discontinu*ed* operations is not helpful to users of financial statements.

Our detailed comments below should be read within the context of our general disagreement.

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 separately if specified criteria are met. Assets so classified may be required to be measured differently and presented separately 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?

We agree that the separate classification of non-current assets held for sale provides additional and valuable information to users. However, we do not agree with the approach taken where the standard itself (paragraph 4) gives the impression of being principles based, while the

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guidance in paragraph 5 and the reference to the detailed list in Appendix B result in a rule based standard. See also our comments on question 8 below.

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 of sale. It also proposes that non-current assets classified as held for sale should not be depreciated.

Is this measurement basis appropriate for non-current assets classified as held for sale? If not, why not?

We do not agree that non-current assets classified as held for sale should not be depreciated. Under the proposed standard, a non-current asset held for sale can still be used in ongoing operations, and therefore normally give rise to earnings. Those earnings should be matched by costs, one of which is depreciation. There is no requirement that such depreciation, or any other change in their fair value, should be presented as part of operations.

We also generally believe that it is unfortunate to have more than one measurement basis for assets still in use.

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.

Is this appropriate? If not, why not?

We agree.

Question 4 – Newly acquired assets
The Exposure Draft proposes that newly acquired assets that meet the criteria be classified as held for sale should be measured at fair value less costs to sell on initial recognition. It therefore proposes a consequential amendment to [draft] IFRS Business Combinations so that non-current assets acquired as part of business combination that meet the criteria to be classified as held for sale would be measured at fair value less cost for sale on initial recognition, rather than at fair value as currently required.

Is measurement at fair value less cost of sale on initial recognition appropriate? If not, why?

We agree that newly acquired non-current assets classified as held for sale acquired as part of a business combination should be measured at fair value less cost of sale. We think that this is a necessary and consequential amendment to [draft] IFRS Business Combination.

Question 5 – Revalued assets

The Exposure Draft proposes that, for revalued assets, impairment losses arising from write-down of asset (or disposal group) to fair value less costs of sale (and subsequent gains) should be treated as revaluation decreases (and revaluation increases) in accordance with the standard under which the asset were revalued, except to the extent that the losses (or gains) arise from the recognition of costs of sale. Costs of sale and any subsequent changes to these costs are proposed to be recognised in the income statement.

Is this appropriate? If not, why?

We agree that any subsequent changes in costs of sale should be recognised in the income statement independent of how the change in fair value has been treated.

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 and held exclusively with a view to resale.

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

We disagree with the proposal on the consequential amendment to [draft] IAS 27, Consolidated and Separate Financial Statements, to remove the exemption from consolidation for subsidiaries. This would result in a requirement to consolidate assets and liabilities, presumably as a disposal group, which does not pass a cost-benefit test. Furthermore, the subsidiaries in question are to be disposed of, which means that the entity should present its shares in the subsidiary, rather than the assets of it, as the asset held for sale. We think that any possible abuse is already encountered by the requirement to restate if the subsidiary is not disposed of within 12 months. The proposed amendment would require the entity that disposes the subsidiary within this period to consolidate it anyhow. This does not seem to serve a purpose.

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 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.

Is this presentation appropriate? If not, why?

While we agree in principle, the presentation requirement in paragraph 28 seems to result in too many items of this nature in the balance sheet (per major class and assets and disposal groups separately). We prefer detailed information to be presented in the notes.

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

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 discontinued operation shall be a separate major line of business or geographical area of operation, 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 operation and cash flows) appropriate?

If not, what criteria would you suggest and why?

As explained in the introduction we prefer IAS 35 to be kept in place. The requirements in IAS 35 result in reporting of a discontinuing operation at the earliest of two dates, the approval and announcement of the plan, or the signing of a binding agreement. In contrast, ED 4 proposes to present assets or operations as discontinued when they have been disposed of, i.e. at a much later date. We do not see how it can be in the interest of the users of financial statements to have important information presented at a later date.

We do not support a situation where relatively small discontinued operations, which are common in most large entities, result in restatements every year.

It is important to require that a discontinued operation should be a major line of business or geographical area of operation.

Question 9 – Presentation of a discontinued operation
The Exposure Draft proposes that the revenue, expenses, pre-tax profit or loss of discontinued operation and any related tax expense 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 do you prefer, and why?

We prefer to present a single amount, profit after tax, for a discontinued operation on the face of the income statement with a detailed disclosure in the notes to the financial statement. The reason for this is that we believe that this presentation is the most appropriate to provide the reader of the financial statement with relevant information.

Yours sincerely,

Jan Buisman
Chairman, Accounting Practices Committee

Björn Markland
Secretary General