new york state society of
NYSSCPA
certified public accountants
530 fifth avenue, new york, ny 10036-5101
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October 31, 2003

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

By e-mail: CommentLetters@iasb.org.uk

Re: ED 4 Exposure Draft of Disposals of Non-Current Assets and Presentation of Discontinued Operations

Dear Ms. McGeachin:

The New York State Society of Certified Public Accountants, the oldest state accounting association in the United States, which represents approximately 30,000 CPAs, thanks the IASB for the opportunity to comment on the Exposure Draft on insurance contracts and its accompanying documents.

The NYSSCPA's International Accounting and Auditing Committee deliberated Exposure Draft 4 and prepared the attached comments for the Board's consideration. If the IASB would like to discuss these comments with the Committee, please contact Robert N. Waxman, the Committee chairman, at (212) 468-7820, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Jeffrey R. Hoops,

President

Attachment

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NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

INTERNATIONAL ACCOUNTING AND AUDITING COMMITTEE

COMMENTS ON IFRS EXPOSURE DRAFT

ED 4 -- Disposals of Non-Current Assets and Presentation of Discontinued Operations

October 31, 2003

Principal Drafter

Patrick Edgar

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New York State Society of Certified Public Accountants

COMMENTS ON PROPOSED IASB EXPOSURE DRAFT
ED 4 -- Disposals of Non-Current Assets and Presentation of Discontinued Operations

General Comments

The proposals in ED 4 make progress toward the goal of converging IASB and FASB standards for disposals of non-current assets and for the presentation of discontinued operations. There remain, nonetheless, differences, detailed in the specific comments below, between the proposal and complete convergence. Additional suggestions to improve the proposal are also covered in the answers to questions below.

Specific Comments

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

The separate classification of non-current assets held for sale (see ED paragraphs 4 and 5 and Appendix B) provides additional useful information to financial statement users. Separately presenting assets held for sale in the statement of financial position provides information that is relevant and faithfully represents the net investment it purports to present. In addition, it segregates (a) those assets that have been measured at the lower of the carrying amount or fair value less cost to sell and are not being depreciated from (b) those assets that are measured on a cost basis and are being depreciated. Such information should assist in assessing the timing and amount of future cash flows. Separate classification is consistent with SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), paragraph 30, B70-B71 and B117 to B119.

We suggest that the major classes of assets and liabilities classified as held for sale be separately disclosed either on the face of the statement of financial position or in the notes to the financial statements to achieve convergence with U.S. GAAP (SFAS 144, paragraphs 46 and 47 (a)).

Question 2 – Measurement of non-current assets classified as held for sale

Non-current assets classified as held for sale should be measured at the lower of their carrying amount or fair value less costs to sell, and they should not be depreciated (see ED 4 paragraph 8, paragraphs 16 and 18). In contrast to a non-current asset to be held and used, a non-current asset classified as held for sale will be recovered principally through sale rather than through operations. Therefore, accounting for that asset is a process of valuation rather than allocation. Depreciation accounting would be inconsistent with the use of a lower of carrying amount or fair value measure for a long-live asset classified as held for sale because it is a process of allocation. This approach is consistent with SFAS 144 paragraph 34 and B.80.

The IASB's conclusion to use the same phrase for "fair value less costs to sell" as is used in SFAS 144 (and not the phrase "net selling price" in accordance with IAS 36) indicates that convergence on this point has been achieved. According to ED 4 Appendix A, fair value is defined as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction." We recommend that the definition of fair value in the ED 4 incorporate the hierarchy for measuring fair value as discussed in SFAS 144 B39 to B43. Market prices in active markets will not be available for many non-current assets, necessitating guidance on how to estimate fair value.

Costs to sell are deducted from the fair value of an asset to be disposed of to arrive at the current value of the estimated net proceeds to be received from the asset's future sale. The definition of costs to sell in ED 4 Appendix A is consistent with the definition of costs to sell in SFAS 144 paragraph 35, enhancing the convergence objectives of the IASB and FASB.

Question 3 – Disposal groups

Assets and liabilities that are to be disposed of together in a single transaction should be treated as a disposal group, with the measurement basis applied to the group as a whole. Any resulting impairment loss would reduce the carrying amount of the non-current assets in the disposal group (see ED 4 paragraphs 3, 11 and 14).

The carrying amounts of any assets that are not covered by ED 4, including goodwill, but are included in the disposal group classified as held for sale, should be measured in accordance with other applicable IFRSs before the fair value less costs to sell of the disposal group are measured (see ED 4 paragraph 11). This approach is consistent with SFAS 144 paragraph 36.

This approach is appropriate because other accounting pronouncements prescribe the accounting for those assets and liabilities not covered by ED 4 included in a disposal group. A loss recognized for a disposal group classified as held for sale should reduce only the carrying amounts of the non-current assets of the group that is included in the scope of ED 4 (see ED 4 paragraph 14). Again, this approach is consistent with SFAS 144 B92.

Question 4 – Newly acquired assets

Non-current assets acquired as part of a business combination that meet the criteria to be classified as held for sale should be measured at fair value less costs to sell on initial recognition rather than at fair value as is currently required (see ED 4 paragraph 9). This is consistent with SFAS 144 B87. This is preferable because this information should help in assessing the timing and amount of future cash flows and provides the user of the financial statements with more useful information.

Question 5 – Revalued assets

Although conservatism generally works against the revaluation of non-current assets above historical costs, impairment losses arising from the write-down of such revalued assets 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 arise from the recognition of costs to sell (see ED 4 paragraph 13 and B5 – B8 of Appendix B).

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

It is appropriate to remove the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale (see ED 4 Appendix C3). The current exemption from consolidation in IAS 27 paragraph 13 prevents those assets and disposal groups within such subsidiaries (which meet the criteria) from being classified as held for sale and thus being treated consistently with other assets and disposal groups. All assets held for sale should be treated in the same way, since information about the nature of both the assets and the liabilities of an asset group classified as held for sale is important information for users.

The removal of the exemption (see IAS 27 paragraph 13) is consistent with the amendment of ARB 51, *Consolidated Financial Statements,* which eliminated the exception to consolidation for a temporarily controlled subsidiary (see SFAS 144 paragraph 2, B119 and SFAS 144 Appendix C2.a.).

Question 7 – Presentation of non-current assets held for sale

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 and should not be offset and presented as a single amount (see ED 4 paragraph 28). Separate presentation of those items in the balance sheet provides information that is relevant and distinguishes those assets that are not being depreciated from those that are being depreciated.

This treatment is consistent with SFAS 144 paragraph 46 and B119. In addition, the major classes of assets and liabilities classified as held for sale should be separately disclosed either on the face of the statement of financial position or in the notes to the financial statements to achieve convergence with US GAAP (See Question 1).

Question 8 – Classification as a discontinued operation

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.

This approach is consistent with SFAS 144 paragraph 42, but the proposed definition of a component of an entity should converge more closely with US GAAP. According to the ED 4, paragraph 22, 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. If the definition were more consistent with FAS 144, a component of an entity could be a reportable segment or an operating segment (as defined in FAS 131), a reporting unit (as defined in FAS 142), a subsidiary, or an asset group. An asset group represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The disclosure of a cash-generating unit as a discontinued operation may lead to useless information because of the small size of such a unit, and inconsistent judgments in identifying cash-generating units could affect the comparability of information reported about disposal transactions under IFRS and US GAAP.

Question 9 – Presentation of a discontinued operation

We prefer the following presentation on the face of the income statement:

Income from continuing operations	XXXX
Loss from operations of discontinued Component X	
(including loss on disposal of $ XXX)	XXX
Income tax benefit	XXX
Loss on discontinued operations	XXX
Net income	XXX

We suggest that ED paragraph 24 be modified to be in accordance with SFAS 144 paragraph 43. The presentation of a single amount, profit after tax, for discontinued operations on the face of the income statement with a breakdown into the above components in the notes – as suggested alternatively by the IASB proposal – would reduce the comparability between financial statements prepared in accordance with IFRS and US GAAP.