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Sir David Tweedie
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Zurich, 29 October 2003

# Comments on Exposure Draft ED 4: Disposal of Non-Current Assets and Presentation of Discontinued Operations

Dear Sir David,

We welcome the opportunity to comment on the above Exposure Draft and hope you will still be able to consider our comments despite the slight delay of our response. In summary, we disagree with the Exposure Draft. It introduces an accounting framework based on management intent rather than actual transactions. While we see the merits of convergence, we believe that the current standards (IAS 35, 36, 37) are superior in dealing with such issues. Accounting should be driven primarily by transactions and (external) events. An asset is stated at cost and depreciated as long as it is used. A sale is recognised when it happens. The criteria for separation and different measurement of assets held for sale are too weak to serve as a basis for an independent audit. In reality, circumstances change every year, and management will respond to them every year. Whether the sale of an asset is highly probable, will often be difficult to assess.

Our responses to the individual questions are as follows:

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

We agree that separate classification of non-current assets held for sale may give relevant information to users, at least to the extent that they represent significant values on the balance sheet. However, we believe this could as well be achieved through disclosure. We are, however, concerned that a multinational group will have to search for planned asset disposals on a worldwide basis in respect of items that are not material to the consolidated financial statements taken as a whole. We also do not believe that a new measurement basis should apply to such assets. The current standard on impairment ensures that an asset is always stated at the lower of its carrying amount and its recoverable amount.

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

We do not agree with the proposed new measurement basis of assets held for sale. An asset should continue to be depreciated or amortised until its sold or withdrawn from use.

The criteria for reclassification are in our opinion too weak to justify a new measurement basis. Guidance on what qualifies as an "active programme" and "active marketing" under paragraph B1 is lacking and too subjective. The expected sale within one year required by paragraph B1 (d) is often unrealistic. Paragraph B2 will therefore often apply but does not provide criteria that an auditor is able to audit ("timely actions", "action necessary to respond to the change in circumstances"). Often, the sale of a disposal group simply takes more time than expected. It is questionable whether such assets should no longer be depreciated or amortised.

We could, however, agree to such a new measurement basis for a discontinued operation as defined in IAS 35. Such a disposal group would then have to be clearly separated from continuing operations on the face of all of the primary statements.

**Question 3 - Disposal groups**

We agree to the extent that a disposal group forms part of a discontinued operation as defined by IAS 35 (see our comments on Question 2).

**Question 4 - Newly acquired assets**

We do not agree based on our comments above.

**Question 5 - Revalued assets**

We do not agree based on our comments above.

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

We agree with the proposed removal of this exemption, since it is based on the same management intent that we consider a questionable basis of accounting. The same applies to investments in associates.

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

As mentioned above, we believe that information on significant assets held for sale should be presented in the notes. Only the discontinuation of a major line of business, as set out in IAS 35, should be presented separately.


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**Question 8 - Classification as a discontinued operation**

We believe that the presentation of discontinued operations should be limited to significant components as described in IAS 35. The IASB agrees that the proposed approach would result in comparatives being restated every year in many cases. This cannot lead to understandable and reliable financial reporting. We therefore strongly recommend to maintain the definition of IAS 35. The other aspects of the proposed criteria are in our opinion appropriate, but the more stringent criteria of IAS 35 should be maintained.

**Question 9 - Presentation of a discontinued operation**

We prefer the presentation as a single amount on the face of the balance sheet, the income statement and the cash flow statement, with appropriate disclosure in the notes. This enables the reader to focus on the continuing operations, since the primary statements do not present an overload of information.

**Other comments**

- Paragraph 26 should also require reclassification of cash flows, if they were previously presented separately as cash flows relating to discontinued operations.
- B4 should refer to 29 (a) rather than 28 (a)

Yours sincerely,

Swiss Institute of Certified Accountants and Tax Consultants

*Accounting and Auditing Practices Committee*

Urs Moser                    Philipp Hallauer