BG Group

7 October 2003

100 Thames Valley Park Drive
Reading
Berkshire RG6 1PT

Telephone 0118 929 3643
Fax 0118 929 3644

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

Dear Ms McGeachin

Exposure Draft 4 – Disposal of Non-current Assets and Presentation of Discontinued Operations

We are responding to the invitation to comment on exposure draft 4 on disposal of non-current assets and presentation of discontinued operations.

BG is broadly in agreement with the proposals set out in the exposure draft. However, we would like to make the following points:

- BG considers that the definition of a discontinued operation should include a requirement to include only those operations which will have a material impact on the nature and focus of the reporting entity's operations. The lack of a materiality condition in the exposure draft's definition of discontinued operations could result in small parts of the business being classified as discontinued, requiring re-statement of comparative information with little benefit to the readers of the accounts.

- BG does not believe that disaggregating assets and liabilities within disposal groups aids the user in evaluating the financial effects of disposals of disposal groups. We believe that a presentation showing the net assets of a disposal group is more appropriate.

Our responses to the specific questions set out in the Invitation to comment are attached.

Yours sincerely

Alistair Williams
Group Financial Controller

Invitation to comment

IASB 1

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?

BG agrees that under certain circumstances it is useful to classify assets as held for sale. However, we believe that the definition of assets held for sale should include a condition relating to materiality of the asset in the context of the reporting entity's operations.

IASB 2

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?

BG considers that the measurement basis for non-current assets classified as held for sale is appropriate.

IASB 3

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 value of the non-current assets in the disposal group. (See paragraph 3.)

Is this appropriate? If not, why not?

BG considers that the treatment of assets and liabilities to be disposed of as a disposal group is appropriate. However, we believe that the definition of a disposal group should include a condition relating to materiality of the asset in the context of the reporting entity's operations.

IASB 4

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?

BG considers that the measurement of newly acquired assets that meet the criteria to be classified as held for sale should be measured at fair value less costs to sell.

IASB 5

The Exposure Draft proposes that, for revalued assets, impairment losses arising from the writedown 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 B6B8 of Appendix B.)

Is this appropriate? If not, why not?

BG considers this to be appropriate.

IASB 6

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?

BG considers that the removal of the exemption is appropriate as the subsidiary's asset and liabilities will be separately identified as 'held for sale' in the consolidated balance sheet.

IASB 7

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?

BG considers that this presentation is not appropriate. The purpose of classifying asset and liabilities as a disposal group is to separately identify those assets and liabilities which are used in the continuing operations of the business from those which will be disposed of over the next year or so. We do not believe that disaggregating assets and liabilities within disposal groups aids the user in evaluating the financial effects of disposals of disposal groups. We believe that a presentation showing the net assets of a disposal group is more appropriate.

IASB 8

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 reported 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 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 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?

BG considers that there should be a materiality criterion included within the definition of a discontinued operation, similar to that included in the UK standard FRS 3. The convergence with SFAS 144 is less important than the adoption of a workable standard.

IASB 9

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?

BG considers that the presentation of discontinued operations should allow users to evaluate the financial effects of the discontinued operations on the rest of the entity, rather than an evaluation of the discontinued operations themselves. Presentation of a single amount would achieve this. In addition, given the likely complexity of the future income statement (following the IASB/ASB project on reporting financial performance) a single amount on the income statement seems a simpler and effective approach.