LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

16 October2003

The Chairman
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir David,

IASB ED4, DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

The Malaysian Accounting Standards Board (MASB) is pleased to provide its comments on IASB ED4, Disposal Of Non-Current Assets And Presentation Of Discontinued Operations, as set out in the accompanying pages.

We hope that you will find the comments useful in your deliberation of the above Exposure Draft.

We thank you for the opportunity to give our comments.

Yours sincerely,

Dato' Zainal Abidin Putih
Chairman

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 if specified criteria are met. 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?

Yes, MASB believes that the separate classification is appropriate.

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 to sell. 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?

Yes, MASB has no objection to the proposal

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?

MASB believes it Is Important that the IASB standards prescribe consistent accounting treatment for similar and related assets across all IASB standards.

If there is no goodwill element in the disposal group, the approach proposed in ED4 will be consistent with IAS36 in that the Impairment loss would be allocated to the assets on a pro-rata basis on the carrying amount of each asset In the disposal group.

However[1] if the disposal group consists an element of goodwill, the approach adopted appears Inconsistent with IAS36. IAS36 requires Impairment loss to be allocated first to reduce the goodwill and then to other assets in the disposal group. On the other hand, ED4 requires impairment loss to be allocated to the carrying amount of the non-current assets in the disposal group that are included in the scope of ED4, therefore excluding goodwill as well as other assets excluded from the scope.

Therefore, It is important for IASB to explain the conceptual reasons if different treatment/basis is adopted for similar or related assets.

Question 4- Newly acquired assets

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. It therefore proposes a consequential amendment to [draft] 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 at fair value as currently required.

Is measurement at fair value less costs to sell on initial recognition appropriate? If not, why not?

Yes, MASB believes the proposal is appropriate.

Question 5 - Revalued assets

The Exposure Draft proposes that, for revalued assets, impairment losses arising from the write-down 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.

Is this appropriate? If not, why not?

Yes, the proposal is appropriate.

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 acquired and held exclusively with a view to resale.

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

Yes, the proposal is appropriate.

Additional Comment

The IASB may well revisit paragraph 29 [draft] IAS27 and paragraph 1(a) [draft] IAS39 for the purposes of consistency.

Paragraph 29 [draft] IAS27 prescribes that when separate financial statements are prepared, Investments in subsidiaries, Jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted under the equity method in the consolidated financial statements shall be accounted for either (a) at cost or (b) In accordance with IAS 39, Financial Instruments: Recognition and Measurement, In the investor's separate financial statements, Paragraph 1(a) (draft] IAS39 states that IAS39 shall be applied to all types of financial instruments except those interests in subsidiaries, associates and Joint ventures; however, an entity shall apply IAS39 to account for an interest in subsidiary, associate or joint venture that according to IAS27, IAS28, or IAS31 is accounted for under IAS39 such as one that is acquired and held exclusively with a view to its subsequent disposal within twelve months from its acquisition.

Hence, the IASB should either:

(i) **revise paragraph 29 (draft] IAS27 that is, to mandate an entity to apply IAS39 in the investors separate financial statement If interest in the subsidiary, associate or joint venture is acquired and held exclusively with a view to subsequent disposal. With such requirement, both [draft] IAS27 and IAS39 would then be consistent An additional paragraph could be included after the last sentence of paragraph 29 (draft] IAS27 stating the following:**

> ***However, an interest In subsidiary, associate or joint venture acquired and held exclusively with a view to its subsequent disposal within twelve months from acquisition shall be accounted* for *in accordance with.***
> **IAS39**

OR

(ii) **delete the phrase "...such as one that Is acquired and held exclusively with a view to its subsequent disposal within twelve months from its acquisition". With such requirement, [draft] IAS27 permits such subsidiary to be carried at either cost or IAS39. The revised paragraph 1(a) (draft] IAS39 would read,**

> ***"This Standard shall be applied by all entities,*** **to** ***all types of financial instruments except (a) those interests in subsidiaries, associates and joint ventures that are accounted for under IAS 27, IAS 28 and IAS31 However, an entity shall apply this Standard to account for an interest in a subsidiary, associate or joint venture that according to IAS27, 1AS28 or IAS31 is accounted for under this Standard"***

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 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 not?

Yes, the proposal is appropriate

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) 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. These criteria could lead to relatively small units being classified as discontinued (subject to their materiality). Some entities may also 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 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 of a discontinued operation (for example, the elimination of the operations and cash flows) appropriate? If not, what criteria would you suggest, and why?

MASB takes note of the IASB's concern that under existing IAS35 there may be disposal transactions that, although likely to have an impact on ongoing operations, do not meet the criteria for classification as a discontinuing operation, for example disposal of part of a cash-generating unit. in this regard, MASB supports that for large companies it is important that the definition of discontinued operation should encompass a component of the entity rather than a major line of business of the entity.

However, for smaller companies, the cost may not outweigh the benefits to users, in particular when the criteria could lead to relatively small units being classified as discontinued.

Question 9 - Presentation of a discontinued operation

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[4] 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?

MASB prefers the presentation of a single amount profit after tax for discontinued operations on the face of Income statement with breakdown of the component details in the notes. This would ensure clarity in presentation as well as not to clutter the face of Income statement

Additional Comment - Appendix C, item C1

Item C1 reads, "In (draft) IAS1, Presentation of Financial Statements paragraph 54 is amended to read as follows, "An asset shall be classified as current when it (a) is expected to be realised in, or is intended for sale or consumption in, the normal course of the entity's operating cycle...". The original word used in [draft IAS1 is "held".

It would be helpful If the phrase "intended" Is further clarified so as to ensure consistent application of the spirit of this provision.