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Our ref : AdK
Direct dial : Tel.: (+31) 20 301 0391 / Fax: (+31) 20 301 0279
Date : Amsterdam, 9 October 2003
Re : Exposure Draft 4 Disposal of Non-current assets and Presentation of Discontinued Operations

Dear Sirs,

The Netherlands Council for Annual Reporting (CAR) appreciates the opportunity to respond to your questions raised in the 'Exposure Draft 4 Disposal of Non-current assets and Presentation of Discontinued Operations' (further referred to as ED 4).

We refer to our comments in the attached document, where we have provided responses to the questions raised by you in ED 4. For parts of this comment we made use of a draft comment letter of EFRAG.

In addition to our response on the questions asked, we would like to make the following comments.

Priority
We were surprised to see the publication of ED 4. Although we understand the importance of convergence we believe that at the moment there are more important issues to solve.

Accessibility
When reviewing, we found ED 4 complex and difficult to understand. IFRSs should be made as accessible as possible. ED 4 does not satisfy the above-mentioned objective.

Presentation of Discontinued Operations
We find that the proposed new standard does not improve the current requirements of IAS 35 Discontinuing Operations. We therefore support the maintenance of IAS 35.

Consistency
The allocation of an impairment loss according to ED 4 is not consistent with the requirements of draft IAS 36. Although we have sympathy for the arguments of the Board (BC 29) we find consistency with the requirements of draft IAS 36 more important. However, we do not believe that for goodwill included in a disposal group held for sale the value in use concept of IAS 36 should be applicable.ED 4 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. This deduction for costs to sell is consistent with IAS 36. However IAS 39 states that an enterprise should measure financial assets at their fair values, without any deduction for transaction costs that it may incur on sale or other disposal. We find that there are inconsistencies within IFRSs relating to the accounting for transaction costs.

If you do have any questions in relation to this letter, please do not hesitate to contact us.

Yours sincerely,

Prof. dr. Martin Hoogendoorn RA
(Chairman CAR)

Answers to questions raised in the ED

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. (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?

Response

CAR
Yes, we agree with the Board's proposal to classify separately non-current assets held for sale, as defined by paragraphs 4 and 5 and Appendix B of the exposure draft. The key requirements of Appendix B should be part of the standard instead of being separated in an Appendix. In that way ED 4 will be more accessible.

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. (See paragraphs 8-16.)

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

Response

CAR
Yes, we agree with the IASB 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. (See paragraph 3.)

Is this appropriate? If not, why not?

Response

CAR
No, we do not fully agree with the IASB proposal. We agree with the Board's proposal that the measurement basis proposed for non-current assets classified as held for sale would be applied to the group as a whole. However, we believe that the allocation of an impairment loss for a group should be consistent with the requirements of draft IAS 36.

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 (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?

Response

CAR
Yes, we agree with the Board's proposal.

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. (See paragraphs B6-B8 of Appendix B.)

Is this appropriate? If not, why not?

Response

CAR
No, we do not agree with the Board's proposal. According to the B8 (*Subsequent gains* requirements) any subsequent increase in fair value shall be recognised to its full extent and treated as a revaluation increase in accordance with the standard under which the assets were revalued before their classification as held for sale. We believe that these requirements are inconsistent with the principal measurement requirement, as expressed in paragraph 8, that a non-current asset (or disposal group) classified as held for sale shall be measured at the lower of its carrying amount and fair value less costs to sell. Paragraph B6 states that any asset that is carried at a revalued amount under another IFRS shall be revalued under that IFRS immediately before it is classified as held for sale under this (draft) IFRS. This revalued amount should be the new basis of accounting of the asset held for sale. Subsequent increases in the fair value should not be recognised. Furthermore, we recommend the Board to include in the Illustrative Examples an example that illustrates the requirements of paragraphs B6-B8.

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. (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?

Response

CAR
Yes, we agree with the Board's proposal.

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. (See paragraph 28.)

Is this presentation appropriate? If not, why not?

Response

CAR
Yes, we agree with the Board's proposal.

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. (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 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 as a discontinued operation (for example, the elimination of the operations and cash flows) appropriate? If not, what criteria would you suggest, and why?

Response

CAR
No, we disagree with the Board's proposal. We find that the proposed new standard does not improve the current requirements of IAS 35 Discontinuing Operations. We therefore support maintaining IAS 35.

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. (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?

Response

CAR
We believe that the presentation of a single amount, profit after tax, for discontinued operations on the face of the income statement with a breakdown in the notes would best meet the objectives of comparability, understandability and relevance without losing valuable detailed information.

Other comments

1. First-time Application

As a result of the IFRS 1 requirements, European 2005 first-time adopters will have to apply the proposed standard for periods beginning on or after January 1, 2004 (instead of January 1, 2005 as proposed by the draft standard). Based on the current IASB time-table and the time needed for the European endorsement process we are concerned that a final standard could only be endorsed in the fourth quarter of 2004 which would cause undue time restraints for a 2004 application. We therefore recommend the Board to consider a consequential amendment to IFRS 1 *First-time Application of International Financial Reporting Standards*.

2. Change in a plan of sale – presentation of required adjustments

Paragraph 24 (b) requires the gain or loss, recognised on the re-measurement to fair value less cost to sell or disposal of the assets or disposal group(s) comprising the discontinued operation, to be presented either in the notes or on the face of the financial statements. When a change in a plan of sale occurs, paragraph 19 requires that the entity shall include in income from continuing operations in the period in which the criteria in Appendix B are not met, any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale. To avoid any gaming opportunity, we believe that any adjustment following changes to a plan of sale should be presented in the same way as the impact of the re-measurement was initially presented.