NOKIA

INVITATION TO COMMENT

Exposure Draft 4

DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

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 1

In our opinion separate classification of non-current assets held for sale will enable additional information to be provided to users and we agree with the IASB proposal of classification of non-current assets held for sale, as defined by paragraphs 4 and 5 and Appendix B of the exposure draft. However, in our opinion, the accounting for exchange of non-monetary assets should be dealt with in a separate standard and excluded from the scope of ED 4. We would also invite the Board to use a more principles based language when setting the criteria for classification of non-current asset as held for sale as we agree with the two Board members that the IASB should not develop detailed rule-based standards.

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 2

We agree with the alternative view expressed by two Board members (AV 2 (b) and 9) that it is conceptually wrong to cease depreciation/amortisation while assets are still in active use.

We do not support the allocation requirement of Paragraph 14 (and BC 28-29) which explain that the allocation of an impairment loss of a disposal group should be to the non-current assets that are within the scope of the draft IFRS as we think that it differs from draft IAS 36.

Our understanding of ED 4 is that goodwill should be tested for impairment in accordance with draft IAS 36, which means that the concept of "value in use" must still be applied for an asset that is held for sale. We find such a requirement internally inconsistent and therefore recommend the Board to amend the draft IAS 36 requirements for held for sale assets.

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 3

Please see our response to Question 3.

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 4

We agree with the IASB proposal and think that a measurement at fair value less costs to sell on initial recognition is appropriate subject to our response to Questions 1 and 2.

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 5

We agree with the requirements of B6 and B7 but we do not support the view taken in B8. 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. Therefore, we recommend the Board to amend paragraph B8 accordingly.

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 6

We agree with the IASB 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 7

In our opinion the presentation proposed in ED 4 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. (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 8

We believe that it is extremely important that the standard setters ensure that in standards at least, there is high comparability and a level playing field between US GAAP and IFRS. Therefore we agree with the Board's proposal for classification as a discontinued operations even though it will be more cumbersome for prepares if compared to current requirements of IAS 35. We also believe that the other aspects of the criteria for classification as a discontinued operation under the exposure draft are appropriate.

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 9

We prefer the alternative approach 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 because this would, in our opinion, best meet the objectives of comparability, understandability and relevance without losing valuable detailed information.