Bundesverband deutscher Banken

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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United Kingdom

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H3.9 - Su/To

ED 4 Disposal of non-current assets and presentation of discontinued operations

Dear Sir David,

Thank you for the opportunity to comment on the exposure draft *ED 4 Disposal of noncurrent assets and presentation of discontinued operations.* We welcome the chance to express our views.

Efficient capital markets require internationally comparable financial information. We therefore warmly welcome the IASB's commitment to the convergence project. Nevertheless, we would like to draw your attention to the general problem of modifying standards at short notice at this moment in time. From 1 January 2005, many companies will begin preparing accounts based on IAS and will have to produce comparative figures for the previous year. These companies need planning certainty. Standards that are modified now and become effective in the course of 2004 will make the changeover much more difficult. We would therefore suggest keeping the number of new standards scheduled to enter into force by 1 January 2005 to an absolute minimum. Non-essential changes should be postponed. ED 4 essentially contains rules on classifying and presenting long-lived assets held for sale. The measurement of these assets is effectively in line with the general impairment rules. Given the tight time-frame for switching to IAS, we suggest taking a critical look at the need for this exposure draft at the present time. We believe that, all in all, it may be deemed of secondary importance.

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We would like to make the following comments on some specific provisions of ED 4:

ED 4 envisages introducing a new category for long-lived assets. If certain criteria are fulfilled, long-lived assets that are to be disposed of are to be classified as held for sale and reported separately. Paragraph B 1 of Appendix B lists a number of criteria which all have to be met for the "held for sale" classification. The most important is the existence of a formal plan to sell adopted by the management. The categorisation of assets as held for sale is thus based on a management decision which is highly subjective and may take any shape or form. Furthermore, such a casuistic list of criteria is at odds with the IAS objective of producing standards based on principles. In our view, setting out detailed sets of individual circumstances will result in more, not less, discretionary leeway.

We have reservations about the fact that the list of criteria - a central element of the standard - is to be found not in the exposure draft itself, but merely in an appendix. We believe all major, binding rules should be included in the main body of the standard.

Until negotiations on a sale have been concluded, details of the estimated selling price must be deemed competitively sensitive. We therefore reject having to disclose this information. Furthermore, such a requirement would create an incentive to report figures which would strengthen the selling company's negotiating position.

The rules on disposal groups are unworkable. While the scope of the draft standard is very narrow when it comes to individual assets held for sale (ED 4.2), assets not covered by ED 4 can nevertheless form part of a disposal group. ED 4.11 envisages that these assets should be measured in accordance with the relevant IAS/IFRS before the fair value less selling costs of the entire group is determined. Any changes in fair value are to be treated in accordance with the standard applying to the assets before their classification as a disposal group (Appendix B7-B8). This means, for example, that changes in the fair value of securities held for trading would be included in the income statement, while changes in the fair value of securities available for sale would be included in the retained earnings. This approach would be virtually impossible to implement in practice.

The impact of ED 4 on the improvement project's removal of the exemption for the consolidation of subsidiaries under IAS 27.13 is unclear. We understand the planned deletion of IAS 27.13 to mean that subsidiaries held for disposal would in future be subject to the provisions of ED 4. We should like to reiterate that it is arbitrary to stipulate that the disposal must take place within one year. There is no rational economic basis for stipulating a specific point in time since the convertibility into cash of equity holdings depends first and foremost on market conditions. We therefore argue in favour of replacing the expression "within one year" (Appendix B 1(d)) with "in the near future".

Should you require any further information, please do not hesitate to contact us.

Yours sincerely,

Burkhardt   Schütte

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