International Accounting Standards Board
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In Prague, 23rd October 2003

Re: Comment Letter on IASB ED 4 Disposal of Non-current Assets and Presentation of Discontinued Operations

The Chamber of Auditors of the Czech Republic welcomes the opportunity to submit its comments to the International Accounting Standards Board regarding the Exposure Draft ED 4 Disposal of Non-current Assets and Presentation of Discontinued Operations, published by the International Accounting Standards Board for comments in July 2003.

Generally we are supportive of the approach presented in the exposure draft concerning the non-current assets classified as held for sale. However, in this point, we would prefer to amend the current standards rather than to issue the new one. Additionally, we do not consider the withdrawal of the concept related to discontinuing operations and its replacement by the rules dealing with the discontinued operations appropriate. In our opinion the current concept of discontinuing operations set out in IAS 35 (supported by the improved rules of proposed IAS 36) better reflects user´s needs of the timely and relevant information than it could be ensured by the suggested approach.

Our answers to the questions raised in the ED 4 are mentioned in the text below.

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?

We agree with the IASB proposal, but we would prefer if the criteria set out in Appendix B as the key requirements to classify a non-current asset as held for sale should be included directly in the core text of any standard (not in the appendix).

Question 2: Measurement of non-current assets classified as held for sales

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?

Although we agree with the principle that non-current assets classified as held for sale should be no longer depreciated, there is in our opinion an issue of the assets classified as held for sale that are in active use until the sale transaction occurs. The depreciation should reflect the situation that the asset is in continuing use and therefore to allow the matching of all of the costs incurred during its use with the benefits resulting from its use. We would like to ask the Board also to reconsider the improved proposed requirements of (draft) IAS 36 that in our opinion deals sufficiently with the impairment of all assets (i.e. including the non-current assets classified as held for sale) rather than to introduce the specific rules related to the non-current assets held for sale.

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?

In our opinion there should raise any issues concerning the clear distinction between the "cash-generating units" and "disposal groups" in practice. With reference to our comments and answers to the questions above we do not consider appropriate to introduce the additional approach of disposal group besides the "cash-generating units" as it is proposed in the improved (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?

Generally we support all the Board´s intentions resulting in a consistent measurement basis that should be applied in the case of assets classified as held for sale, independently on the way how they are acquired. However, we would like to express our concerns regarding assets classified as held for sale that are in active use until the sale transaction occurs, as explained in our comments to the question 2. In such a case we would prefer to keep the initial measurement as it is currently required.

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?

Refer to our previous comments we do not agree with the IASB´s proposal. Any subsequent impairment losses and gains should be treated as revaluation decreases and increases as it is required by the improved proposed requirements of (draft) IAS 36.

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?

We do not agree with the Board´s proposal. If the subsidiary is acquired and held exclusively with a view to resale, the substance of the assets acquired is rather the shares of the subsidiary than the individual assets, and it would be accounted for in accordance with IAS 39.

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?

We agree with the 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?

We do not consider the change from "discontinuing operations" to "discontinued operations" suitable from the user´s need of the timely information point of view. We would prefer the criteria set out in current 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?

Refer to our answer to the previous question we prefer to remain the approach set out in the current IAS 35.

We hope you´ll find our comments helpful and we would be pleased to discuss any aspect of this letter you may wish.

Yours sincerely,

ing. Ladislav Langr
Vice-president of the Chamber of Auditors of the Czech Republic