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THE INSTITUTE OF
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IN IRELAND

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Anne McGeachin
Project Manager
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London
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Dear Ms McGeachin,

ED 4 - Disposal of Non Current Assets and Presentation of Discontinued Operations

The following are the comments of the Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) on the above exposure draft.

General Comments

AC welcomes the publication of this document as part of the overall convergence project between FASB and IASB and recognises the need to follow those developments. It is unfortunate that it covers only part of the UK Accounting Standards Board (ASB) Financial Reporting Standard (FRS) 3 *Reporting Financial Performance*, and parts of FRS 11 *Impairments of Fixed Assets and Goodwill*, and we await further developments in reporting financial performance. AC recognises that this very difficult transitional phase in developing converged standards will result in many teething issues and some confusion over the next few years before it is finally sorted out.

Specific Issues

IASB1 *ED 4 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 from other non-current assets.*

Does the separate classification of non-current assets held for sale enable additional information to be provided for users? Do you agree with the classification being made? If not, why not?

As these assets are not available for future use within the business, classifying them separately and valuing them at fair value will provide users with a truer indication of their future realisable value. AC therefore agrees with the proposal for separate identification and classification. However, AC believes that it would be useful if those assets still in use were identified separately from those that are not, particularly in the light of our comments in IASB 2.

IASB2 *ED 4 proposes that non-current assets classified as held for sale 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? If not, why not?

This is similar to the valuation of inventories and it is clear that the arms length price (fair value) less selling costs is equivalent to net realisable value for current assets. AC supports this measurement basis.

AC does not agree with non depreciation if the carrying value adopted is higher than fair value, as the asset is still in use up to the date of disposal, and non depreciation would understate the true cost of employing the assets during the period from date of recognition as held for sale and actual disposal. Even if fair value is lower than the previous carrying value, depreciation should be charged as the fair value may be expected to fall as the asset is still being used.

AC believes that, for the purposes of clarity, financial assets covered by IAS 39 should be specifically excluded from the scope of the proposed standard.

IASB3 *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 value of the non-current assets in the disposal group.*
Is this appropriate? If not, why not?

AC agrees that all assets and liabilities in the single disposal group be valued on the same basis.

IASB4 *ED 4 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 asset 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?

AC agrees with the valuation measurement proposed. It is consistent with the approach adopted throughout the ED.

IASB5 *ED 4 proposes that, for revalued assets, impairment losses arising from the writedown 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 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?

AC agrees with this approach, which essentially treats costs to sell as an expense item rather than an inherent value of the asset.

IASB6 *ED 4 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?

AC agrees with this approach to ensure consistency of accounting treatment of all assets held for resale.

IASB7 *ED 4 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?

AC agrees with separate disclosure. Presentation of the net effect should, however, be provided in the notes to the accounts.

IASB8 *ED 4 proposes that a discontinued operation should be a component of an entity that has either been disposed of, or is classified as held for resale, and:*

(a) the operations and cash flows of that component have been, or will be, eliminated from 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 regularly sell (and buy) operations that would be classified as discontinued operations, resulting in discontinued operations being reported 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 to be made, 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?

AC would prefer the following definition, as stated in The ASB Financial Reporting Standard (FRS) 3 *Reporting Financial Performance* (paragraph 4):

> Discontinued operations:-
>
> Operations of the reporting entity that are sold or terminated and that satisfy all of the following conditions:
>
> a. The sale or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
>
> b. If a termination, the former activities have ceased permanently.
>
> c. The sale or termination has a material effect on the nature and focus of the reporting entity's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular market (whether class of business or geographical) or from a material reduction in turnover in the reporting entity's continuing markets.
>
> d. The assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.
>
> Operations not satisfying all these conditions are classified as continuing.

AC concurs with the comments above that it could lead to a proliferation of discontinued operations. That can only devalue the information provided and make it look as if discontinued operations are really only a subset of normal operations. AC would therefore support the view that an additional requirement be included to insist that only major lines of business/geographical areas be classified as discontinued.

Are the other aspects of the criteria for classification as a discontinued operation appropriate? If not, what criteria would you suggest, and why?

AC believes that the four criteria from FRS 3, noted above, are very clear and would be more beneficial to both preparers and users. In particular, there is no mention of terminated operations. AC suggests that the final IFRS should clarify whether terminated operations should be ignored as discontinued operations and whether the individual assets/liabilities should be regarded as held for sale.

IASB9 *ED 4 proposes that the revenue, expenses, pre-tax profit/loss of discontinued operations and any related tax expense should be presented separately on the face of the income statement. An alternative 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?*

AC would prefer to see a net figure presented on the face of the income statement. This would avoid the incorporation of too many figures on the face of that statement and therefore permit readers to actually see the wood from the trees. Those users requiring more information about the discontinued operations can read the notes. This approach would avoid too much attention being placed on activity, which will no longer be part of ongoing operations.

It would serve to focus the user of the financial statements on all discontinued activities, if they are presented in one note rather than on the face of the profit and loss account.

Other Comments

AC suggests that paragraph 12(b) be clarified to ensure that a gain on a subsequent increase in fair value less costs to sell should not be in excess of the cumulative impairment loss ON THAT ASSET.

AC considers that paragraph 16 should be altered, as mentioned above, to remove the cessation of depreciation of non-current assets, held for sale.

Yours sincerely

Simon Magennis
Secretary
Accounting Committee
Institute of Chartered Accountants in Ireland