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International Accounting Standards
Board (IASB)
Ms. Anne McGeachin
Project Manager
30 Cannon Street, London EC4M 6XH
United Kingdom

October 23, 2003

ED-4

Dear Ms. McGeachin:

UBS appreciates the opportunity to comment on the Exposure Draft 4, *Disposal of non-Current Assets and Presentation of Discontinued Operations* (the "ED"). UBS utilizes IFRS as its primary reporting framework and provides a reconciliation to US GAAP. As such, we are strong supporters of the convergence project and the work of the Board in improving these standards.

Generally, we support the view held by the IASB that non-current assets held for sale should be measured at fair value less cost to sell and should be separately presented on the balance sheet. We agree that separately classifying such items provides important information to users of financial statements about the amount and timing of future cash flows. However, we have two main issues with the proposal, namely the requirement to restate financial statements for all discontinued operations and the effect of this new pronouncement on Private Equity investments and other types of investments (e.g. freehold properties) that could fall under a final Standard.

The requirement to disclose revenue, expense and pre-tax profit or loss of a discontinued operation for all periods presented should be amended to avoid annual restatement. Entities that regularly sell components of an operation as defined in the ED will be required to constantly restate financial statements, thereby reducing reliability and comprehensibility. We suggest that disclosure on the face of the income statement be required only for those discontinued operations that represent a major line of business or geographical area of operation in line with the current definition under IAS 35, *Discontinued Operations*. For all other disposals meeting the definition of a discontinued operation disclosure could be provided in the notes to the financial statements. We believe that this approach will retain integrity in the financial statements while ensuring that investors are apprised of the impact of the disposal on continuing operations.

Private Equity investments are investments made in companies that are separate operations from the investor, and are purchased and held with the goal of ultimately generating a profit from their sale. Frequently, a Private Equity investor purchases a controlling interest in such a company. Because of the separate nature of these investments, as an investor nears the stage where it will divest itself of such an investment, the operation will likely meet the criteria set forth in the Exposure Draft that would require it to be classified as a disposal group and presented as a discontinued operation. For an active Private Equity investor with a mature portfolio, this set of circumstances could result in a restatement of financial statements every year, as successive Private Equity investments become ready for sale. We believe that such frequent restatements detract from the reliability of financial statements, and make them more difficult for users to understand and compare. We do not believe that such restatements improve the usefulness or conceptual validity of the financial statements. We would note that in most cases, such restatements would have little impact upon consolidated net income and equity. We acknowledge that many Private Equity investors in this position (UBS included) have other operations that are so large as to make most Private Equity divestments immaterial, with the result that the requirement to restate might be ignored. However, we view this issue as a significant shortcoming of this proposed standard, and do not feel it appropriate to rely on materiality exceptions.

It is important to note that even before a Private Equity investment is consummated, the investor will have at least the outline of a plan for divestment. Such a plan is the first step required to meet the criteria in this Exposure Draft to classify a Private Equity investment as held for sale. However, because of uncertainties about timing and the inability to identify a specific buyer, the investment will not completely meet those criteria. Accordingly, we are left with the dilemma of needing to consolidate an operation that we know with reasonable certainty will be deconsolidated in the near future. As previously expressed to the IASB, we do not support this approach and believe that consolidation of Private Equity investments by a financial investor will not improve financial reporting, will add no information of value for users of the investor's financial statements and may, in fact make the financial statements of the investor less understandable.

To eliminate this problem, we suggest one of the following courses of action:

1) That Private Equity investments meeting specified criteria (including designation by management) be explicitly defined as having met the criteria for classification as held for sale, such that they need not be consolidated at any time from date of purchase through the date of disposition. We recognize that such a course of action opens up a potential for abuse, but believe that criteria could be developed such that faithful application by preparers and auditors will adequately address this risk.

2) If Private Equity investments are required to be consolidated, the purchase and sale of these companies should be permitted to be viewed as a line of business as opposed to a discontinued operation every time a sale is initiated. Accordingly, the sale of a Private Equity portfolio investment would not result in restatement but instead would be simply a part of the operations of the Private Equity Investor. A discontinued operation or component might be identified if the investor decided to exit the Private Equity business altogether. Again, criteria for identifying Private Equity investments would need to be established, and should include designation by management.

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We believe that either of these alternatives would eliminate the danger of annual restatements, thereby improving the reliability, consistency and ease of use of financial statements without fundamentally changing the principles or objectives of this Exposure Draft. As noted above, we recognize that either approach would result in the need to establish criteria for identifying and classifying Private Equity investments. We would be pleased to work with your staff to draft such criteria.

We have included our responses to the specific questions asked in Appendix A to this letter.

Once again, we appreciate the opportunity to comment. Please contact us at your convenience if you would like to discuss any comments that we have made. Your contacts on this topic are Ralph Odermatt +41-1-236-8410 and John Gallagher +1-203-719-7092.

Sincerely,

UBS AG

William Widdowson
Managing Director
Group Tax and Accounting Policies

Ralph Odermatt
Managing Director
Accounting Policies and Support

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 that the separate classification of assets held for sale enables additional information to be provided to users. We believe that this information is important for users of financial statements to understand the nature and timing of future cash flows and therefore support the IASB's proposal. However, we believe the criteria in Appendix B should be moved to the main standard. This information is critical to the effective application of the standard and therefore should be given the same prominence as the guidance in the main body of the standard. Although we recognize that the criteria for designation as held for sale is prescriptive, we believe that it is necessary to achieve comparability among entities.

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?

We believe that it is appropriate to measure non-current assets held for sale at the lower of their carrying amount or fair value less costs to sell and cease depreciation. The purpose of depreciation is to systematically allocate an assets cost over its service period. We agree with the basis for conclusions that the value of assets held for sale will be recovered primarily through sale rather than through continuing use. As such, accounting for the asset is a matter of valuation and not allocation. For assets held for sale measurement at the lower of carrying amount or fair value less costs to sell accurately reflects any depreciation in value as a result of use during the period 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?

We agree that assets that are to be disposed of together in a single transaction should be treated as a disposal group. We agree that the group should be measured as a whole and any resulting impairment loss should reduce the carrying amount of the non-current assets in the group. We agree that the Exposure Draft should not change the measurement principles for assets that are not within its scope. As such in order to accurately reflect the fair value less costs to sell of the disposal group as a whole, any impairment must be reflected through the non-current assets within the scope of the standard.

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?

We agree 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 and classified as held for sale on initial recognition. The recognition of costs to sell upon inception reflects the true fair value of the asset to the entity. Classification as held for sale upon inception will ensure that all non-current assets held for sale are consistently accounted for regardless of how they are acquired. Consolidation of assets and liabilities that the entity intends to dispose of in the near future would be misleading to users of financial statements.

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?

Yes, we agree that it is appropriate to recognize changes in the fair value of assets in accordance with the standard under which the assets were revalued prior to being classified as held for sale. We believe that the accounting standard for revalued assets should not be amended as a result of management's decision to sell those assets. For example, financial assets in the trading account of a subsidiary that is held for sale should continue to be revalued in accordance with IAS 39. We agree that any changes in the expected cost of sell of selling the subsidiary should be reflected in the income statement similar to how the costs are treated for other assets held for sale.

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?

As expressed to the IASB in our comment letter on the amendments to IAS 27, we believe that private equity investments should be exempt from consolidation as they are purchased with the intention for disposal and are managed and evaluated by the investor on a fair value basis, separate and distinct from the basic ongoing operations of the investor. The amendments to IAS 27 require consolidation of all subsidiaries irrespective of the fact the subsidiary was purchased for investment purposes with the intent to resell in the future. We believe that consolidation of private equity investments by a financial investor will not improve financial reporting, will add no information of value for users of the investor's financial statements, and may, in fact, make the financial statements of the investor less understandable. In order to alleviate this problem we suggest that ED-4 be amended to permit one of the following courses of action:

1) That Private Equity investments meeting specified criteria (including designation by management) be explicitly defined as having met the criteria for classification as a Disposal Group, such that they need not be consolidated at any time from date of purchase through date of disposition. We recognize that such a course of action opens up a potential for abuse, but believe that criteria could be developed such that faithful application by preparers and auditors will adequately address this risk.

2) If Private Equity investments are required to be consolidated, the purchase and sale of these companies should be permitted to be viewed as a line of business as opposed to a discontinued operation every time a sale is initiated. Accordingly, the sale of a Private Equity portfolio investment would not result in restatement but instead would be simply a part of the operations of the Private Equity Investor. A discontinued operation or component might be identified if the investor decided to exit the Private Equity business altogether. Again, criteria for identifying Private Equity investments would need to be established, and should include designation by management.

We believe that either of these alternatives would eliminate the danger of annual restatements, thereby improving the reliability, consistency and ease of use of financial statements without fundamentally changing the principles or objectives of this Exposure Draft. As noted above, we recognize that either approach would result in the need to establish criteria for identifying and classifying Private Equity investments.

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 to present non-current assets held for sale and assets and liabilities in a disposal group separately in the balance sheet. We believe that this presentation provides useful information to investors about the amount and timing of future cash flows. We support the view that assets and liabilities in a disposal group should not be offset. This is consistent with the current reporting of assets and liabilities in the balance sheet.

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 agree that it is appropriate to restate comparative financial statements for the disposal of small components of an entity. Entities that regularly sell or abandon operations will be required to constantly restate financial statements. We believe that this will significantly reduce the reliability and comprehensibility of financial statements. However we do feel that convergence is very important in the global investing environment. As such, we recommend that the IASB keep the proposed definition of a discontinued operation but amend the disclosure requirements. We suggest that the requirement to disclose revenue, expense and pre-tax profit or loss of a discontinued operation for all periods presented be amended to avoid annual restatement. We believe a better approach would be to require disclosure on the face of the income statement only for those discontinued operations that represent a major line of business or geographical area of operation in line with the current definition under IAS 35. For all other disposals meeting the definition of a discontinued operation disclosure could be provided in the notes to the financial statements. We believe that this approach will retain integrity in the financial statements while ensuring that investors are apprised of the impact of the disposal on continuing operations.

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?

Subject to the opinion expressed in our response to question 8 above we agree with the importance of disclosing the effects of discontinuing operations on net income. However we support the alternative approach to present a single amount, profit after income tax for discontinued operations, on the face of the income statement with a breakdown of the components in the notes. Reporting the effect of discontinued operations on a single line item will alert users to the net impact on income from discounting operation and the notes will provide users with the necessary detail. We believe that providing too much detailed information on the face of the income statement could be confusing to users, especially when an entity has multiple disposals in one reporting period and the effects of each disposal must be further explained in the notes.