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Dear Madam

Financial Reporting Exposure Draft 32 'Disposal of non-current assets and presentation of discontinued operations'

Thank you for the opportunity to comment on the above exposure draft. We have a number of general comments on FRED 32.

We do not support ED 4. We believe that the IASB has issued this Exposure Draft more for political expediency (namely to keep US standard setters 'on side') rather than because it represents any improvement to existing international standards. We are unaware of any significant problem in the accounting issues addressed by this draft. Given the IASB's very heavy work programme we are therefore surprised that time has been expended on producing this draft standard.

In our opinion the principles contained in IAS 35 'Discontinuing Operations' are superior to the rules in ED 4 on discontinued operations. Assuming IAS 35 is not withdrawn we would welcome a FRED proposing amendments to FRS 3 to align UK GAAP with IAS 35.

We believe the proposed rules for non-current assets held for sale and disposal groups are inappropriate. In particular:

- the criteria to be met for classifying an asset as held for sale are unnecessarily prescriptive. We consider that the criteria should be more principles based; and
- information about discontinued (or discontinuing) operations is obviously of use to users of accounts. However, we do not see the need for such prominence to be given to information about non-current assets held for sale and disposal groups that do not constitute operations, particularly if those assets have not been retired from use.

Our responses below to the specific questions raised in the Exposure Draft must therefore be read in the overall context of disagreeing with the need for a new standard.

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ASB 1: Do you agree with a new proposal to issue a new UK standard on disposal of non-current assets and discontinued operations when the IASB issues its new IFRS?

We support the convergence project and therefore in general agree that UK standards should be issued to mirror those standards issued by the IASB. However, we do not support the notion of issuing standards simply to achieve convergence if those new standards are significantly inferior to existing GAAP. We believe that the standard proposed in the exposure draft is significantly inferior to both current UK GAAP and existing international standards.

IASB 1: 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?

The internal classification by an entity of those non-current assets held for sale would not provide additional information to users of accounts. Obviously the separate presentation (or disclosure) of non-current assets held-for-sale separately from other non-current assets in the accounts would provide additional information to users than if they were not separately presented (or disclosed). However, we do not believe that it is necessary to present (or disclose) non-current assets held for sale separately because we do not believe the information will be of any great use to users of accounts unless a significant proportion of those non-current assets have also been withdrawn from use.

We note that IAS 16:66(e) already encourages entities to disclose the carrying amount of property, plant and equipment retired from active use and held for disposal, and we would support any move to make this disclosure mandatory.

Only if an entity can identify specific cash flows and results relating to an asset or disposal group would the separate presentation or disclosure of non-current assets held for sale and disposal groups be of any real use to users. If this is possible the asset held for sale or disposal group would almost certainly be a discontinued (or discontinuing) operation, details about which we agree should be disclosed.

IASB 2: 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 assets classified as held for sale should not be depreciated. Is this measurement basis appropriate for non-current assets classified as held for sale? If not, why not?

Where a non-current asset held for sale has been retired from use, arguably the most relevant measurement is its fair value. We do not believe an entity should be prevented from carrying such an asset at fair value simply because at the point it is classified as held for sale its depreciated cost is less than fair value.

Assuming the disposal is not a forced sale, the decision to dispose of an asset would presumably be taken because the net sales proceeds are expected to be greater than the asset's value in use. Where this is the case, if the entity has applied the requirements of IAS 36 'Impairment of assets' the asset's depreciated historic cost should always be equal to or less than its fair value. For non-current assets held for sale that have been retired from use, we therefore question whether depreciated historic cost is ever likely to be an appropriate measurement.

Furthermore, we concur with the dissenting board member's views that where a non-current asset held for sale is still being used by the entity, it is not appropriate to cease depreciation on the basis that management intends to sell the asset.

We also note that although paragraph 8 requires non-current assets classified as held for sale to be measured at the lower of carrying value and fair value less costs to sale, paragraph B8 requires further upward revaluations if the entity had a policy of revaluation prior to classifying the asset as held for sale. It does not seem appropriate that the measurement rules post classification as held for sale should differ between entities that applied different accounting policies prior to that classification.

IASB 3: 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?

We do not agree. The points we raise in question 2 are equally applicable to this question.

IASB 4: 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. It therefore proposes a consequential amendment to IFRS on Business Combinations 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.

IASB 5: 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 are proposed to be recognised in the income statement. Is this appropriate? If not, why not?

We agree. Such an approach is consistent with FRS 7, which requires businesses held exclusively with a view to resale to be fair valued at expected net sale proceeds

IASB 6: 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?

It is not appropriate to remove this exemption. We believe it is entirely appropriate to exempt a parent from consolidating an acquired company (say as part of another group) that is held exclusively with a view to resale. The aggregate carrying amount of such an investment that is consolidated on a line-by-line basis (net of disposal costs) will be no different to its carrying amount as an investment on a single line. Therefore, very little benefit would actually be achieved by removing the exemption and requiring the underlying assets and liabilities to be presented separately.

Furthermore, we do not understand how an entity would account for the results of that subsidiary in the period after acquisition up to the date of disposal. Guidance is needed in this respect if the exemption is removed. Consolidating the results in this period would be at variance with FRS 7:67, which requires the results in the holding period to be excluded.

We also do not understand why there is no equivalent proposal to remove the existing exemption from IAS 31 for investments in joint ventures that are acquired with a view to resale where the acquirer has a policy of accounting for joint ventures using the proportional consolidation method.

If this proposal is carried forward we believe that paragraph 9 should be clarified to explicitly state that newly acquired assets *other than investments in subsidiaries* that meet the definition of held for sale shall be measured at fair value less costs to sell.

IASB 7: 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 refer to comments made in IASB question 1. We believe our comments apply equally to disposal groups that do not constitute discontinued (discontinuing) operations as they do to individual non-current assets held for sale.

IASB 8: 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 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?

We believe the principles in IAS 35 for identifying discontinuing operations are more appropriate than the definition in ED 4 and would prefer to see the definition redrafted along those lines.

We do not think it appropriate to continually designate an operation as discontinued (or restate comparatives) unless the operation disposed of was material in the context of either the current year or comparative results.

The definition provided would be especially (and unnecessarily) burdensome to some types of entities, in particular property companies. The disposal of a single investment property may meet the definition of a discontinued operation in ED 4, yet few (if any) users would consider the company to have discontinued an operation.

IASB 9: 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?

We consider that the presentation of revenue, expenses, pre-tax profit or loss and any related tax items should be shown on the face of the income statement. We do not believe that the presentation of a single item on the face of the income statement would give users sufficient prominent information regarding the effect of discontinued operations on the results for the period.

We believe that disclosure should be made of the results of each discontinued operation in the notes to the accounts.

Yours faithfully

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