23 October 2003

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International Accounting Standards Board
30 Cannon Street
London
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Dear Madam

Exposure draft on Disposal of non-current assets and presentation of discontinued operations.

We are pleased to provide you with our comments on the Exposure Draft concerning Disposals of Non Current Assets and Presentation of Discontinued Operations. The proposals are set out in Exposure Draft 4 issued by the International Accounting Standards Board in July 2003.

In principal, we welcome the proposals contained in ED4. In particular, we welcome the proposal to adopt a classification of 'held for sale' and the concept of a 'disposal group' and the requirement that these should be presented separately on the face of the balance sheet.

We support the IASB's proposal that, assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell, although we do not feel depreciation or a regular review of fair value (half yearly and / or yearly if applicable) should cease purely because management intends to sell the assets.

We agree in principle with the IASB's proposals in relation to the withdrawal of IAS 35 Discontinuing Operations and replacing it with the requirements that are detailed in the Draft IFRS, in particular in determining when the component is classified as discontinued and hence when its results are presented as discontinued.
However, we are not in full agreement with changing the definition of a discontinuing operation from 'a major line of business' or 'geographical area of operations' to a 'component of an entity' that may be a cash generating unit or any group of cash generating units. This could mean a business that sells (& / or buys) many cash generating units (but not necessarily discontinuing the whole line of business) will have to constantly restate their comparative figures. We feel that the current definition of discontinued through IAS 35 is wide enough to ensure that users of the financial statements are aware of the impact of any **significant** disposals. Also with the addition of the new 'disposal group' users will be indicated towards disposal events that are highly probable to occur in the future without them necessarily having to be classified as discontinued in the income statement the following year.

One further point that we have is it would be useful if the draft IFRS provided transitional rules for adopting the standard as at this point in time the draft IFRS is currently silent on this issue.

Please find enclosed with this letter answers to the Invitation to Comment questions in the ED itself.

Please do not hesitate to contact either of us if you require clarification on any of our comments.

Yours faithfully,

Elizabeth Bain
Group Financial Accountant

Nicola Salmond
Group Financial Accounting Manager

Stagecoach Group

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Responses to the Invitation to Comment questions raised in ED 4

<u>Question 1</u>

(a) We agree that the separate classification of non current assets held for sale enables additional information to be provided to users – mainly with regard to amounts and timings of future cash flows of the business.
(b) We do agree with the classification being made as it gives more insight into the business for the users of the financial statements.

<u>Question 2</u>

We agree with the IASB's proposals to measure assets held for sale at the lower of carrying amount and fair value less costs to sell, although we do not agree the asset should not be depreciated. If the asset is measured at fair value then a review of the fair value should be carried out yearly and / or half yearly (if applicable) and if the asset is measured at carrying amount it should still be depreciated as it is conceptually wrong not to do so as the assets are still in active use.

<u>Question 3</u>

We agree with the proposal that the measurement basis proposed for non-current assets classified as held for sale would be applied to the disposal group as a whole and any resulting impairment loss would reduce the carrying amount of the non current assets in the group.

<u>Question 4</u>

We agree with the IASB's proposal that when 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 and therefore agree with the amendment that is required to IFRS X Business Combinations

<u>Question 5</u>

We agree with the IASB's proposal that for a revalued asset, impairment losses arising from the write down of assets to fair values less costs to sell (and gains) should be treated as revaluation decreases (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.

<u>Question 6</u>

We agree with the IASB's proposals that the exemption from consolidating for subsidiaries acquired and held exclusively with a view to resale should be removed. These subsidiaries will be separately identifiable within the new proposed financial statements and to bring them on balance sheet and to provide this disclosure leads to the fuller provision of information to those users of group accounts.

<u>Question 7</u>

We agree with the IASB's proposals that non current assets be 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 (or notes to). To offset these amounts would not give a true reflection of the separate potential reduction in assets and liabilities and would distort key financial ratios e.g. asset cover.

Question 8

(a) We feel that in this case the original definition from IAS 35 that a discontinued operation shall be a separate major line of business or geographical area of operations should remain even though this would not converge with SFAS 144. Distinguishing only separate major lines of business or geographical areas of operations as discontinuing improves the ability of investors, creditors, and other users of the financial statements to make year on year, company comparable, projections of the entity's cash flows, earnings-generating capacity and financial position. To have small units being classified as discontinued would not, in our view, add much to these projections and would only add onerous requirements to companies that have many disposals in any given year to meet this new requirement (including significant disclosures).

(b) We agree with the IASB's proposals for the other aspects of the criteria for a discontinued operation.

Question 9

We agree with the IASB's proposals that where there is a discontinued item that certain disclosures are required. We do not have a strong view on whether these items are presented separately on the face of the income statement or alternatively as a single amount on the face of the income statement with a breakdown in the notes.