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Ms Anne McGeachin
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International Accounting Standards Board
30 Canon Street
LONDON EC 4M 6XH
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Dear Mr McGeachin

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

The Group of 100 response to Exposure Draft 4 is attached.

Yours sincerely

**John V Stanhope**
National President

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

### Specific Matters for Comment

***Q1. 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?*

**The Group of 100 agrees that a non-current asset held for sale should be identified and classified as a separate category where the stated criteria are satisfied. We strongly support the exception to the twelve months rule in respect of the circumstances beyond the control of the entity such as the actions of regulators including competition authorities.**

***Q2 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 paras 8-16).*

*Is this measurement basis appropriate for non-current assets classified as held for sale? If not, why not?*

**The Group of 100 believes that non-current assets held for sale should be measured on the basis of the lower of carrying amount and the anticipated net realisable value, that is, the net proceeds of the disposal. This approach is consistent with the basis of measurement of inventories.**

**Where depreciable non-current assets are classified as held for sale and measured on that basis the entity should not charge depreciation on those assets. To do so would be inconsistent with the basis of measurement.**

***Q3 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?*

**The Group of 100 supports the notion of a disposal group where a group of assets or a cash generating unit is being disposed of.**

***Q4 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?*

**Yes. The Group of 100 believes that the basis of measurement of non-current assets held for disposal should be consistently applied. Where assets acquired in a business combination are held for disposal we support the initial recognition of these assets at net realisable value (fair value less costs of disposal).**

***Q5 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 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?*

**The Group of 100 supports the proposed treatment in respect of disposal of revalued assets.**

***Q6 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?*

**Yes. However, if standards are purported to be principles based the requirements should be specified in the standard and not in**

**supplementary/supporting material such as the Basis for Conclusions, which are not part of the hierarchy of pronouncements.**

***Q7 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 asset 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?*

**Yes. The Group of 100 supports the separate classification of non-current assets held for disposal**

***Q8 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 form 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?*

**The frequency of occurrence of discontinued operations should not be a consideration. If the nature of the activities of a company is such that discontinued operations are a frequent occurrence that should not upset the principles on which the standard is based. The principles must be sufficiently robust to be operational in a range of different circumstances.**

**In this regard, if the IASB can achieve convergence with US GAAP this issue should be pursued.**

***Q9 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?*

**The Group of 100 prefers the alternative approach to the presentation of a discontinued operation with detailed information presented in the notes. We are concerned that the income statement would become unnecessarily cluttered if detailed information relating to discontinued operations is presented on the face of the income statement. This is particularly so in the context of the foreshadowed presentation of the statement of financial performance.**