CCDG
COUNCIL ON CORPORATE
DISCLOSURE & GOVERNANCE

[by Post and E-mail]

24 October 2003

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT ED 4 DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

The Council on Corporate Disclosure and Governance (CCDG) appreciates the opportunity to comment on the Exposure Draft ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations* published by the International Accounting Standards Board (IASB) in July 2003. Our comments are divided into General Comments and Responses to Specific Questions set out in the "Invitation to Comment" section. These comments are given in the context of the IASB's Framework for the Preparation and Presentation of Financial Statements considering, *inter alia*, the recognition and measurement criteria therein, whether alternatives are permitted and the adequacy of requirements or guidance.

General Comments

2. We strongly support the work of the IASB in its efforts towards the convergence of International Financial Reporting Standards and US Generally Accepted Accounting Principles.

Responses to Specific Questions

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?

The CCDG is of the view that the separate classification of non-current assets held for sale would enable additional information to be provided to users and agree with the classification being made. However:

- **disclosure of such price-sensitive information may put the company in a disadvantageous position in its price negotiation process and reveal the company's overall business strategy. A company shifting its customer or product focus may want to keep its strategy from the competition until it is ready to implement the change.**
- **being based mainly on management intent & not an actual event, such "premature" disclosure may hamper price negotiation and have a negative impact on morale of affected staff.**
- **prompt disclosure of major asset sales is currently provided for under the Singapore Exchange Listing Rules for listed companies.**
- **the detailed criteria in Appendix B are complex & rule-based with additional conditions if the period to complete the sale extends beyond one year. Thus creating unnecessary complexity, detailed analysis & justification of the circumstances for the classification in the financial reporting.**

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?

The CCDG is of the view that this measurement basis is appropriate for non-current assets classified as held for sale.

We note that under the proposed improvements to IAS 16, paragraph 59 states that "depreciation of an item of property, plant or equipment does not cease when it becomes temporarily idle or is retired from active use and held for disposal". The rationale provided is that the financial statements would omit the consumption of the asset's service potential that occurs while the asset continues to be held if depreciation is not provided for such an asset. ED 4 appears to be inconsistent with this rationale since a non-current asset that is classified as held for sale could still be used in operations even though the carrying value would be recovered primarily through the sale rather than through continuing use. We are of the view that the two accounting standards should not contradict each other.

A concern has been expressed that the new measurement basis would add complexity as a change in circumstances may force a subsequent abandonment

or postponement of the sale plan and hence a reversal of the measurement. The recognition of 'costs to sell' before an actual sale is a further disincentive.

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?

The CCDG is of the view that the proposed accounting treatment for disposal groups is appropriate.

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?

The CCDG is of the view that measurement at fair value less costs to sell on initial recognition is appropriate. This appears to be a conservative approach and would imply that costs to sell would be recognised immediately in the income statement even when the actual disposal may take place in a later financial period. The measurement basis appears not to be consistent with that proposed in Question 2 above where non-current assets held for sale should be measured at the lower of carrying amount and fair value less costs to sell although practically speaking, fair value less cost to sell would be the lower amount on initial recognition.

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?

The CCDG is of the view that the proposed accounting treatment for impairment losses for revalued assets is appropriate. The proposal requiring costs to sell to be charged to the income statement may lead to uncertainty, could be misleading and would affect the financial ratios such as earning per share. However, the proposal is consistent with the conceptual framework definition of expense.

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?

The CCDG notes the rationale provided by IASB for the proposed removal of the exemption. However, the treatment of a subsidiary held for sale would become inconsistent with the treatment of a non-current asset held for sale or a disposal group. Consolidating a subsidiary which is temporarily held may not produce a meaningful picture. We gather that the reason for the proposal is more for convergence with US GAAP. Consequently, the CCDG is of the view that the IASB may wish to consider the reason for the exemption in the first place.

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?

The CCDG is of the view that the presentation of non-current assets held for sale and the assets and liabilities of a disposal group is appropriate.

A concern has been expressed that separate presentation could weaken the price negotiation position of the company.

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?

Considering the importance of the US capital markets, whilst the CCDG is generally agreeable with convergence, the proposed definition could lead to relatively small units being classified as discontinued operations and having the comparative figures being frequently restated. In addition, it uses the same criteria for "asset held for sale" which is subjective and intent driven. The IASB may wish to consider making an amendment to the proposed criteria to include the existing IAS 35 *Discontinued Operations* criteria that the discontinued operations should be a major line of business or geographical area of operations.

The proposed change in timing for the classification of discontinued operations, which is based on the criteria used to classify assets held for sale, is subjective and the actual disposal may not eventually take place.

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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?

The CCDG is of the view that the latter presentation of a discontinued operation, i.e., breakdown presented in the notes rather than separate presentation on the income statement, is preferable because users may refer to detailed information as necessary in the notes.

A concern has been expressed that while the presentation of a discontinued operation separately in the income statement may be more informative, it would also add to the cost of preparing financial information.

3. We shall be pleased to discuss our comments and views with the IASB or its staff. Please contact Mr Ramchand Jagtiani, Deputy Director, at the Institute of Certified Public Accountants of Singapore via email at jagtiani@icpas.org.sg should you require further information. Thank you.

Yours sincerely,

Derek How
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