FEDERATION
BANCAIRE
FRANCAISE

The Deputy director general

Monday, October 27th

**FBF response to ED4 " Disposal of non-current assets and Presentation of Discontinued Operations".**

Dear Sir David,

The French Banking Federation is pleased to have the opportunity to comment on Exposure Draft 4 "Disposal of non-current assets and Presentation of Discontinued Operations".

We would like to point out that we do not consider this issue to be of prime importance. We are actually more concerned with the quality and practicality of the standards rather than by their convergence with existing standards or, indeed, their availability by 2005.

Nevertheless, the French banking industry does consider it important for assets that are held for sale to be provided with specific classification, measurement and disclosure provisions.

With regard to the consultation itself, our initial contention is that the criterion of current / non current lacks relevance in the case of financial entities using a liquidity presentation, which represents the main limit of the draft standard.

Furthermore, we have significant concerns about two particular proposals :

- Non-current assets classified as held for sale should not be depreciated (Question 2).

  We believe this provision to be inappropriate for those assets held for sale that are still in use.

- Removal of the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale (Question 6).

  We consider that the additional cost implied by the requirement to consolidate these subsidiaries in financial statements for a short period, and to present them separately from on-going activities, outweighs any merit gained by the increase in financial information provided to the market.

You will find our detailed responses to the questions raised by the exposure draft in the attached appendix.

Sincerely,

Pierre de Lauzun

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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 FBF agrees with separate classification for assets held for sale and believes it will improve information provided to users. Nevertheless, it is not clear how the criterion current / non current should be dealt with by credit institutions using a liquidity presentation in their financial statements. We think that additional guidance might prove necessary to identify assets included in the scope of the standard.

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 paragraphs 8-16.)**

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

We do not agree with the proposal concerning non-depreciation of non-current assets classified as held for sale, except if these assets are not in use anymore. Should they still be in use, we consider it normal that the possibility to depreciate them should be maintained, as it would be the case for assets that are not held for sale.

Additionally, we suggest introducing a materiality criterion on costs to sell, which should not be included in the revaluation of the assets held for sale if their amount is not considered as material.

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 ?**

We agree.

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 ?**

We agree on the measurement at fair value less costs to sell on initial recognition.

Anyway, we would like to indicate that there remains an inconsistency in the initial recognition of available-for-sale financial assets that were acquired through a business combination, even though IFRS X Business Combination is modified to allow deduction of cost to sell from fair value.

The inconsistency comes from IAS 39 requirement to measure those instruments at fair value. Consequently, costs to sell are not included in initial recognition or revaluations. We suggest IASB also modify IAS 39 in this way.

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 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 ?**

We agree with the proposed treatment for 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 ?**

We strongly disapprove of this proposal. We think that the removal of this exemption will create an undue burden for the entities, were they to present information in their financial statements separately from their on-going operations. We are convinced that there will be no additional information provided to users due to this removal, and that it, on the contrary, might be confusing for the users, as they will find it difficult to understand the actual scope of consolidation of the entity.

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 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 this presentation.

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 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 think that further clarification would be useful to appreciate the threshold effects of the criteria for components of an entity. We advocate for a definition of a component of an entity that should not lead to present information on discontinued activities on components smaller than cash-generating unit, as it would add undue calculation complexity.

Moreover, we consider the classification criteria for discontinued operation are stricter in ED 4 (the operation is disposed of or held for sale) than in IAS 35 (earlier of the entity entering into a binding sale agreement and the board of directors approving and announcing a formal disposal plan).

As far as convergence is concerned, we do insist on the fact that our priority is set on quality rather than on convergence.

**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 French Banking Federation would opt for the second approach (single amount on the face of the income statement).