October the 24th, 2003

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Re: Exposure Draft ED 4: Disposal of Non-Current Assets and Presentation of Discontinued Operations

Dear Sir David,

We are pleased to provide our comments on the above Exposure Draft which reflect joint deliberation between ourselves and BNP-Paribas.

Overall, except for the concerns expressed below, we are supportive of this Exposure Draft as we believe that the introduction of a classification of assets that are held for sale will substantially improve the information made available to users of financial statements about assets to be sold and as we consider the importance of international convergence around high-quality accounting standards.

However we believe that:

- some guidance should be added as to which assets are within the scope of ED 4 when an entity such as a financial institution uses a liquidity presentation of its balance sheet.
- the determination of the measurement basis of assets and liabilities should be part of a larger comprehensive project. Therefore, we believe that the proposed new measurement requirements for assets held for sale should not be part of the short term convergence project ; we do not support the decision to interrupt depreciation of the asset while the asset is still in use.

.../...

- the removal of exemption from consolidation for subsidiaries acquired and held exclusively with a view to sale would not improve the information made available to users of financial statements.

Appendix 1 sets out our answers to the questions raised in the draft Standard.

If you have any queries regarding our comments, please do not hesitate to contact me at at 33 (1) 42 14 49 86 or Mr DAMOTTE at 33 (1) 42 14 04 10.

Sincerely,

Ms Véronique de la Bachelerie
Group Accouting Manager

Appendix 1
Comments on ED 4 – Disposal of Non-Current Assets and Presentation of Discontinued Operations

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?

We find it difficult identifying which assets are within the scope of ED4. Our major concern is to understand under which circumstances an asset should be classified as non-current.

We understand that non-current assets are identified as opposed to the definition of current asset in Appendix A, based on the following four cumulative criteria:

1. they are **not** expected to be realised or intended for sale or consumption in the normal course of business, AND
2. they are **not** held primarily for trading purposes, AND
3. they are **not** expected to be realised within 12 months of the balance sheet date, AND
4. they are **not** cash or cash equivalent.

What is the definition of "normal course of business"? (criterion 1 of the definition of a current asset)

For example, in leasing activities, it is common that a lessor disposes of assets subject to operating leases immediately after the end of the lease term. Although the asset is recognised as a fixed asset in the balance sheet, we understand it could be classified as current, as it can be demonstrated that the asset will be disposed of at the end of the normal leasing operating cycle. Is our understanding correct?

Does the current/non-current classification of an asset apply at the date of initial recognition of the asset or is there any reclassification at the time the decision to sell is made?

We have difficulty with the fact that the expected disposal date of an asset, which management knows from inception that it will dispose of through a sale transaction, influences the classification of the asset. We understand that criterion 3 of the definition of a current asset determines the classification of an asset as current or non-current depending on whether the disposal is expected to take place before or after twelve months after the balance sheet date.

An illustrative example may be investment property. Some of them are held mainly for rental revenue purposes and others are held for arbitrage purposes. We understand that investment property generating rental revenue should be classified as non-current. We are uncertain about the classification of investment property held for arbitrage. Does it have to be identified as held for trading or held for sale at the time it is initially recognised in order to be classified as current? If not, will it be possible to change the classification from non-current to current when the decision to sale the asset is made?

Are there types of assets that must be classified as non-current in all circumstances (property, land,...)?

We understand that all types of assets, including land, property, plant and equipment may be classified either as current or non-current. For example, when a bank holds assets such as land and buildings as a result of foreclosures, we understand that these assets should be recognised as non-current items if they were to be used by the bank for its own use. However, if the bank does not keep them for its own use, we understand that they would be recognised as inventory and classified as current assets if they are expected to be sold within twelve months of the balance sheet date. In such a case, we conclude that they would not be subject to the requirements of ED 4. Is our understanding correct?

Therefore, we believe some guidance relating to the current and non-current classification of assets should be added to the Standard.

Finally, we believe Appendix B contains key requirements that should be part of the Standard instead of being separated in an Appendix as it makes the draft Standard less easy to read (e.g. B1, B2, B3 and B4).

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 support the proposed change. Whilst we agree that there are merits in measuring an asset held for disposal that is no longer being used at the lower of its carrying amount and its fair value less costs to sell (i.e. thereby stopping the recognition of any depreciation), we have difficulty with the application of this principle for assets held for disposal that are still being used. The use of such assets still generates economic benefits and it is appropriate to recognise the associated expenses (see paragraph 95 of Framework), hence depreciation. This does not prevent from recognising an impairment loss if need be. As a result, we do can not support the proposed change.

Before changes are made to measurement principles in individual Standards, we believe that the IASB should undertake a more comprehensive project on measurement basis.

Appendix 1
Comments on ED 4 – Disposal of Non-Current Assets and Presentation of Discontinued Operations

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?

If the IASB were to retain the measurement of non-current assets held for sale at fair value less cost to sell (see our comments at Question 2), we would not object with a change in the initial measurement of assets acquired in a business combination that will be subject to future disposal and deduction of disposal costs from the fair value of the assets to be disposed of. In our comment letter on ED 3, we expressed our views that assets and liabilities should be measured taking into account the acquirer's intent for those elements.

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.

Appendix 1
Comments on ED 4 – Disposal of Non-Current Assets and Presentation of Discontinued Operations

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 disagree.

We believe that removing this exemption will distort the relevance of the financial information provided. We believe that the requirement to consolidate the balance sheet, the income statement and the cash flow statement for a limited number of months and having to present information on the income statement and the cash flow statement separately from the on-going operations will not provide major additional information to users of financial statements. We believe that the most relevant asset to be shown as acquired with a view to resale is the investment (i.e. financial asset to be classified as available for sale), and not the individual assets and liabilities held by the subsidiary. It will furthermore create an imbalance between benefits and costs of providing that information (substantial amount of efforts in order to consolidate the data and to obtain all information from the entities in order to be able to provide all the consolidated disclosures as required by other Standards). Information on the main assets and liabilities held by the entity to be disposed of could be disclosed in the notes to the financial statements.

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 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. We also agree that entities should have the choice to disclose the major classes of assets and liabilities classified as held for sale either on the face of the balance sheet or in the notes to the financial statements.

We suggest that the requirement for separate presentation of assets and liabilities be extended to certain equity components. For example, as a disposal group could contain available-for-sale financial assets measured under IAS 39 with changes in fair value recognised in equity, we believe a separate classification is also needed for that part of equity that will be disposed of with the disposal group. Other possible examples relate to the effect of a disposal on the translation reserve, minority interests and where derivatives have been used in cash flow hedging relationships. It seems relevant to indicate the portion of equity that relates to all items of a disposal group.

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 believe that there is a need for guidance as to when a component of an entity can be identified (e.g. refer to IAS 35.11). At the moment, we are uncertain how the requirements would apply. We would not favour presenting information on discontinued operations for a component of an entity smaller than a cash-generating unit to which goodwill would be allocated as this would involve complex calculations for the allocation of expenses and overheads to these components.

In the identification whether a component of an entity meets the definition of a discontinued operation in Appendix A, we believe more guidance should also be added on the criterion "(b) *the entity will have no significant continuing involvement in that component after its disposal*". We note this criterion is no longer considered by the IASB as a suitable criterion for the proposed changes to the derecognition requirements in IAS 39. We would like to understand how it would apply under ED 4, taking into account the recent changes decided by the Board for the revisions to IAS 39, Financial Instruments: Recognition and Measurement. For example, whenever an entity provides some guarantees on the performance of the assets being disposed of, would this mean that there is still a significant continuing involvement and therefore the definition of discontinued operations would not be met? How would ED 4 apply to the disposal of a bank's branch where the bank guarantees to the purchaser the risks on the existing client portfolio disposed of?

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?

With regards to the understandability of the financial statements, we believe a single net amount of profit or loss on the face of the income statement with a breakdown given in the notes is preferable. This amount should be consistent with the determination of segment result required by IAS 14, Segment reporting.

In addition, we have concerns about the ED 4 requirements to disclose the elements of "revenue" and "expenses" for a financial institution. We would appreciate that the IASB explains what is considered revenue for financial institutions. Should it be based on the disclosure and presentation requirements of IAS 18, Revenue, and IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions? If so, we believe that the "revenue" caption (we suppose that it would be the aggregation of gross income arising from interest, dividends, fees and commissions and other income items) would be of little relevance for the users of the financial statements. A more meaningful caption would be disclosure of the Net Banking Income of the discontinued operations, which includes net interest income, net fee and commission income, income on equity securities and other variable income instruments, net gains on trading account securities and securities available for sale, net investment income of insurance companies, other net banking income, net income from other activities.